Lancashire County Council

Statement of Accounts

2010/11

Contents

Introduction to the statement of accounts

- **Purpose of the statement of accounts**

This statement forms the formal audited accounts of the county council for the financial year 1 April 2010 to 31 March 2011. The production of the statement is prescribed by Statute; it is prepared in accordance with the Accounts and Audit Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

The statement gives the reader an overall impression of the finances of the county council for the financial year 2010/11. It is one of a series of reports and publications on the council's finances and financial position. The council operates a four-year Medium Term Financial Strategy (MTFS), which is reviewed on an ongoing basis during the year and sets out the financial landscape and the council's financial plans for the years ahead. Within that MTFS cycle, each year the council:

- Sets an annual budget and council tax;
- Monitors and reports on financial and service performance during the year;
- Reports on the financial and service performance for the year as a whole compared with the budget;
- Prepares this set of accounts for the year in the Statement of Accounts, which are audited by the council's external auditor.

This introduction sets out a summary of the main parts of the statement in section 2 immediately below, and then goes on to highlight significant aspects of the accounts and of the council's financial position.

- **Contents of the statement of accounts**

The main parts of the statement of accounts are:

- **The Auditors Report** – the district auditor's opinion on our accounts for 2010/11.
- **The Annual Governance Statement** – assurances on our governance arrangements and the way we manage our affairs.
- **The Movement in Reserves Statement** – shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or deficit on the provision of services line shows the true economic cost of providing the authority's services, more details of which are shown in the comprehensive income and expenditure statement. These are different from the statutory amounts required to be charged to the county fund balance for council tax setting purposes. The net increase/ decrease before transfer to earmarked reserves line shows the statutory county fund balance before any discretionary transfers to or from earmarked reserves undertaken by the council.
- **The Comprehensive Income and Expenditure Account** – shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.
- **The Balance Sheet** – shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority are matched by the reserves held. Reserves are reported in two categories, usable and unusable.
- **The Cashflow Statement** – shows the changes in cash and cash equivalents of the authority during the reporting period.
- **The notes to the accounts** – supporting information which sets out further details and explanations of many entries within the financial statements listed above.
- **The Pension Fund accounts** – a summary of pension fund performance over the year and the net assets of the pension fund at the end of the year. The pension fund accounts are separate from those of the county council, and are included in this statement for information only.

- **Revenue and capital spending in 2010/11**

  The final position for Directorate spending was an underspend of £3.2 million despite ongoing and significant demand pressures for both Children and Adult Social Care services. The non-service spending final position was an underspend of £21.2 million the main areas of which were spending related to savings realised in respect of financing costs and surpluses generated on trading services.

  While it has been necessary to meet £31.2million of voluntary severance costs in the year it has still been possible, following the review of the Council's reserves and provisions, to ensure that the Council maintains its financial strength and sets aside specific resources to facilitate the transition to the lower levels of spending that will be required in the coming years.

  At 31 March 2011 the County Fund balance stood at £41.9 million representing 5.1% of the 2011/12 budget requirement. A general reserve on this scale is regarded as sufficient to manage the significant financial risks facing the County Council going forward.

  There are a further £189.5 million of revenue reserves (including trading operations) with the largest being schools balances at £51.157 million. This now includes specific provision for future severance costs and the Service Transformation Programme to be delivered through One Connect on a business case basis.

  There are also £43.6 million of specific revenue provisions which include £10.4 million relating to the Equal Pay Review, £8.4 million in relation to severance costs as a result of restructuring proposals which deliver elements of the savings required in the Council's budget and £20.1 million in respect of insurance.

  <u>Schools</u>

  The Schools delegated budget has underspent by £8.266 million whilst the centrally held budget for schools spending has underspent by £5.057 million. As a result Schools balances stand at £51.157 million with other schools reserves and provisions totalling £18.894 million.

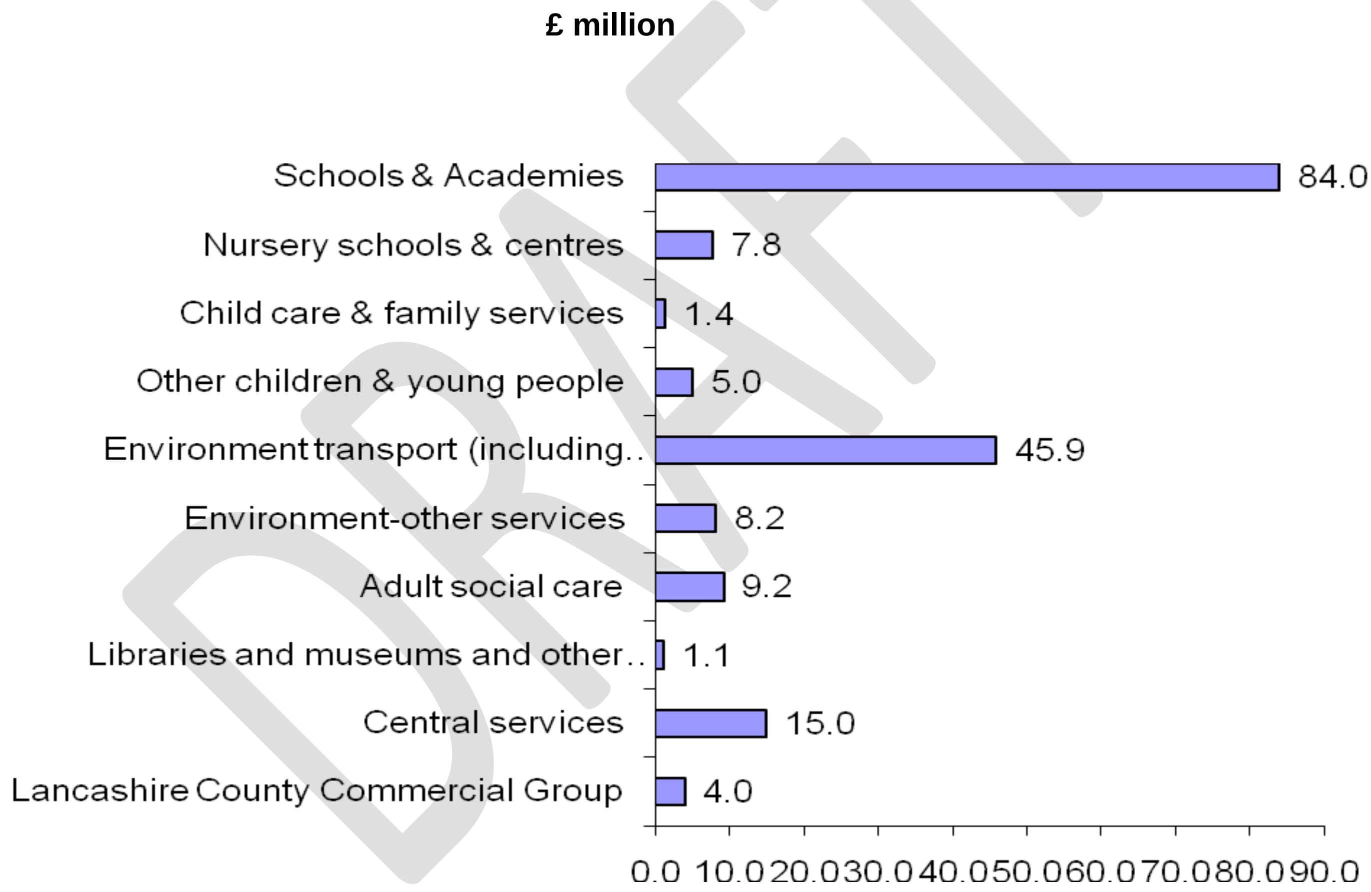
Capital spending in 2010/11

The total of the county council's capital spending in 2010/11 was £181.7 million. This reflects the county council's investment in assets which give a long-term benefit to the residents of Lancashire such as schools, roads, libraries and social care facilities for adults and children. Projects included: the continued upgrading of school buildings; the maintenance of roads and bridges; the development of new waste recycling plants; new respite care centre and the modernisation of day care facilities for adults with learning disabilities, the start of a new Youth and Community Centre in Nelson and a new eco railway station in Accrington. In addition during the year as part of the Treasury Management activities of the authority, bonds were purchased which classify as capital expenditure. These were also sold during the year.

The expenditure was funded from government grants, capital receipts, other income, revenue contributions and also by long-term borrowing.

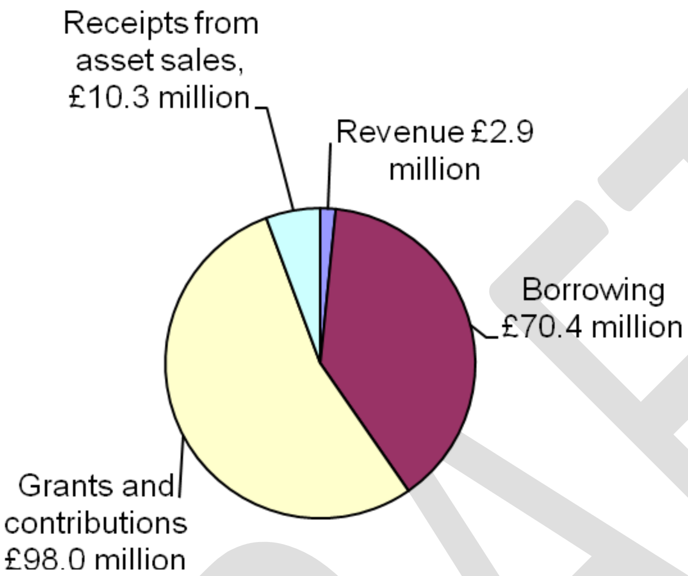
The total loan debt built up over the years to finance capital expenditure and still outstanding at the end of 2010/11 was £792 million, although some of this relates to assets which have been transferred to other authorities. That part for which the county council is financially responsible is £744 million of which £404 million is with the Public Works Loan Board (PWLB). During 2010/11 the county council took advantage of low short term borrowing rates to restructure £287 million of long term fixed rate PWLB debt with the expectation of reducing the total amount of interest payable. As a result of this the average rate of interest paid on the entire debt fell from 4.37% in 2009/10 to 2.69% in 2010/11.

The graph below shows our major areas of capital spending during the year.



How we funded capital spending

The funding for our capital spending came from several different sources which are summarised in the chart below.



Other financial performance measures for the year include:

- Treasury Management activity has generated average interest on investments of 2.45%;
- The Council paid 99% of invoices within 30 days and 63% within 10 days;
- As at the end of the year the proportion of outstanding debt over 6 months old was 14.8% compared to 14.91% a year earlier;
- The average number of debtor days (a measure of the speed of income collection) was 46.7 days compared to 56.8 days a year earlier.

Full details of spending, income and budget variances are set out in the report on the final accounts to Cabinet on 7 July 2011. This is available on our website:

http://www.lancashire.gov.uk/council/meetings/cabinet/theCabinet.asp.

There is more information on our performance in the Corporate Strategy Monitoring Report and its compendium of performance indicators, also available via the website.

- **Outlook for the future**

  The council operates an ongoing Medium Term Financial Strategy (MTFS), reflecting the impact that current events and trends will have on future financial years. In February 2011 the Council incorporated this strategy into the setting of a three year budget for the years 2011/12 to 2013/14. This step was taken in view of the 4 year settlement announced by Government on 13 December 2010 which is widely regarded as the toughest such settlement for Local Government in a generation.

  The delivery of the Council's strategy not only reflects the reduction in funding and the cost increases for 2011/12 but requires the consideration of the impact of a number of other financial pressures expected to arise in the future.

  In order to deliver the Council's three year budget, savings of £179.1 million must be delivered. Proposals have been approved that provide these savings and the Council's performance against these proposals will be closely monitored and reported upon throughout the 3 year period. This control is essential to ensure the Council delivers the required savings and places itself in the best position it can to make decisions on future service delivery within an economic climate that is widely expected to remain extremely challenging for the foreseeable future.

  The County Council is also facing growth in demand, with considerable financial impact. The biggest increases currently being experienced, and are forecast to continue over the next three years relate to demand for social care, both in terms of children and adults social care.

  In terms of children's social care, the pressure lies almost solely within agency placements. Over the next three years, the cost of agency placements is forecast to increase by £12 million, which is some £6.5 million above that previously thought. Not only are more children coming into care, but they are remaining in care for longer. This is exacerbated by the difficulties experienced in maintaining the number of in-house foster carers together with the 6-9 month delays in the adoption process caused by the failure across the North West of CAFCASS. Whilst the investment in the Invest to Save Early Intervention Strategy and the Fostering

Strategy have stabilised foster care numbers, potential savings are not yet sufficiently reliable to be incorporated into the financial strategy.

In Adults Services, after taking into account the impact of the £6 million invest to save initiative within the Directorate (estimated to reduce demand by £12 million over the three years), demand for adult social care will add £19 million to our costs over the next three years. There are two key national policy drivers which appear to be at the root of this increase – the improvements in access to services (through the Customer Access Centre) and the significant improvement in the attraction of personalised budget/self directed support. The combined impact appears to have unlocked a significant level of latent demand not previously forecast.

There remain a number of uncertainties that may have an impact upon the Council's ability to deliver its savings strategy which must be considered and monitored over the coming months. Such uncertainties include; the impact of the change in treatment of the costs of Ordinary Residence for Adult Care services; the outcome of the Local Government Resource Review and the localisation agenda; and, the introduction of the Carbon tax.

Public spending continues to be under significant pressure and open to high levels of scrutiny, and this pressure will be sustained over the spending review period. It is expected that local government will see further significant reductions in spending after 2012/13; which means difficult decisions ahead about which services we provide, to what level, to which people.

To minimise this, work must continue to drive forward the efficiency agenda, and grasp the opportunities that a corporate approach to the standardisation of back office services and processes provides.

Changes In The Accounts

There are some important areas of change in the accounts this year compared with previous years including:

Adoption of International Financial Reporting Standards (IFRS)

The 2010/11 financial statements are the first to be prepared on an International Financial Reporting Standard (IFRS) basis. Adoption of the IFRS-based Code has resulted in the restatement of certain balances and transactions, with the result that some of the 2009/10 comparative figures presented in the 2010/11 financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10 under UK GAAP accounting. Note 2 highlights the main accounting adjustments the authority has made in order to change the presentation of the financial statements for a UK GAAP basis to an IFRS basis.

There has also been a requirement to change the way in which the financial statements are presented as follows:

Balance Sheet – the authority has presented three balance sheets for the position as at

- 1st April 2009 (i.e. the opening position for the 2009/10 balance sheet), which is also the required transition date for all authorities to move from a UK GAAP accounting basis to an IFRS accounting basis.

- A comparative IFRS balance sheet as at 31st March 2010.

- A balance sheet as at 31st March 2011 – representing the first full year of an IFRS accounting basis for all local authorities.

Comprehensive Income and Expenditure Statement (CIES) – this statement shows the authority's cost of providing services. In addition, under the additional category of 'Other Comprehensive Income and Expenditure', this statement now incorporates all the gains and losses of the council for the year, showing the aggregate increase in its net worth. Under UK GAAP accounting these additional gains and losses were shown separately under the Statement of Total Recognised Gains and Losses. The 2009/10 CIES has been restated to an IFRS basis.

Movement in Reserves Statement – this is a new financial statement which shows the movement in year of the different reserves held by the authority. This has been presented on an IFRS accounting basis.

Cash Flow Statement – under IFRS accounting this statement shows the changes in the cash and cash equivalents of the authority during the reporting year. IFRS accounting requires the authority to reclassify certain categories of monies held as 'cash equivalents' within the Balance Sheet. Cash equivalents are generally monies held on short term deposit which can easily be converted to cash. The full details relating can be seen in' cash equivalents' accounting policy number 3 in note 1 to the accounts.

The accounting policies which the authority has implemented to support the IFRS reporting requirements can be seen in note 1.

Events After the Balance Sheet Date

The Statement of Accounts was authorised for issue by the County Treasurer on 29 June 2011.

A strategic partnership agreement between Lancashire County Council and BT was signed on 28 April 2011. This contract formalised the creation of One Connect Ltd (OCL), enabling services to be delivered through the strategic partnership from 16th May 2011. The company is jointly owned by BT (60%) and Lancashire County Council (40%) and has been awarded a ten year contract to deliver a range of services. A contingent asset has been recognised at the balance sheet date in respect of guaranteed savings under the strategic partnership agreement pertaining to the period 1st January 2011 to 31st March 2011, prior to contract signature but on the basis that the inflow of economic benefit had become probable at the balance sheet date.

Pensions liability

Pension costs are reported in line with International Accounting Standard 19 (IAS 19). This means that the notional costs of retirement benefits are charged to the accounts as they are earned by employees in the year; finance costs (interest costs and the return on assets) must also be included. These notional costs are then reversed out of the accounts and substituted by the actual cash costs of employer pension contributions in the Statement of Movement on the County Fund in order to give the council's actual spend position for the year. (This position is set out in detail in note 67 to the accounts.)

The treatment under IAS 19 also means that the council's balance sheet includes an entry for the accumulated pension liability, which is a forecast of the long term liability to pay staff retirement benefits. (The balance sheet also contains an equal and offsetting notional pension's reserve entry.)

At 31 March 2011 the pensions liability calculated by the actuary is £765.212 million, a decrease of £294.746 million over the previous year's figure of £1,060 million. The net liability of £765.212 million is split between the Local Government Pension Scheme (£629.012 million) and the Teachers Pension Scheme (£136.200 million).

The UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1st April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI). This has the effect of reducing Lancashire County Council's liabilities in the Lancashire Pension Fund by £153.486 million (£145.545 million for the Local Government Pension Scheme and £7.941 million for the Teachers pension scheme), and has been recognised as a past service gain in accordance with guidance set down in UITF Abstract 48, since the change is considered to be a change in benefit entitlement. There is no impact on the County Fund.

This has contributed to the overall decrease in the 2010/11 pension liability of f £294.746 million and to the increase in the county council's net worth of £416.543 million from 2009/10 to 2010/11, which can be seen on the balance sheet on page 27. Other factors affecting the change in pension liability are explained in note 67 and accounting policy number 17.

Statutory arrangements for funding pension liabilities mean that our financial position remains healthy. The liability will be made good by increased contributions over the working lives of our employees, as assessed by the actuary.

Forecast increases in employer's pension contributions that would result from the latest triennial valuation of the pension fund and would take effect from April 2011 have already been included in the medium term financial strategy up to 2013/14.

Gill Kilpatrick CPFA
County Treasurer
29 June 2011

Independent auditor's report to the members of Lancashire County Council

Opinion on the authority accounting statements – Awaiting 2010/11 opinion from the Audit Commission

DRAFT

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources (awaiting 2010/11 feedback from the Audit Commission

Authority's Responsibilities

Clive Portman
District Auditor
Audit Commission
2 Floor
Aspinall House
Aspinall Close
Middlebrook
Bolton
BL6 6QQ
Date:

Statement of responsibilities for the statement of accounts

The county council's responsibilities

We must:

- make arrangements for the proper administration of our financial affairs and secure that one of our officers has the responsibility for the administration of those affairs. In this authority, that officer is the executive director for resources;
- manage our affairs to secure economic, efficient and effective use of resources and safeguard our assets;
- approve the statement of accounts.

The County Treasurers' responsibilities

The County Treasurer is responsible for preparing our statement of accounts in line with the Chartered Institute of Public Finance and Accountancy/Local Authority (Scotland) Accounts Advisory Committee Code of Practice on Local Authority Accounting in the United Kingdom. This means presenting a true and fair view of our financial position on the accounting date and our income and expenditure for the year ending 31 March 2011.

In preparing this statement of accounts, the County Treasurer has:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent; and
- complied with the local authority Code.

They have also:

- kept proper, up-to-date accounting records; and
- taken responsible steps to prevent and detect fraud and other risks.

Annual Governance Statement – Financial Year 2010/2011

This statement is prepared in compliance with the requirements of the Accounts and Audit Regulations 2011 to prepare a statement on internal control in accordance with proper practices and the guidance on those practices provided by CIPFA and SOLACE in 2007.

The authority's responsibility in relation to internal control

Lancashire County Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the authority is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.

The authority has approved and adopted a code of corporate governance which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government.* The authority also complies with the CIPFA statement on the role of the Chief Financial Officer in Local Government (2010).

A copy of the code of corporate governance is on our website and a hard copy can be obtained by contacting Roy Jones on 01772 533619. This statement explains how the authority has complied with the code and identifies actions further to improve our corporate governance arrangements during the coming financial year.

The purpose of the governance framework

The governance framework comprises the systems and processes, culture and values by which the authority is directly controlled and the activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. It is an ongoing process designed to identify and prioritise the risks to the achievement of the authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

This statement confirms that the governance framework has been in place at the authority for the year ended 31 March 2011 and up to the date of approval of the annual report and statement of accounts.

The authority's governance framework

This section highlights the key elements of the systems and processes that comprise the authority's governance arrangements in accordance with the six principles of corporate governance included in our code:

- ❖ Lancashire County Council has a Corporate Strategy which sets out its vision for Lancashire for the period 2010-2013. The strategy is refreshed annually to reflect changes in both local and national priorities.

- ❖ The authority is keenly aware of the need to ensure that it delivers on its ambitions. Quarterly reports are considered by the Cabinet Committee on Performance Improvement which set out performance against applicable indicators and in relation to the authority's corporate objectives. The authority's Customer Access Strategy has the vision 'That everyone in Lancashire can get help and information on all the County Council's services conveniently and efficiently.' The authority uses the views of the public through its 'Living in Lancashire' residents' panel and bespoke research and consultation activities to inform decision making.

- ❖ Lancashire has a 'strong leader' model of executive government and the roles and responsibilities of the different elements of the Executive, Leader, Cabinet, and individual cabinet members, are set out in its constitution. In December 2008 it passed a resolution to adopt a leader and cabinet executive within the terms of the Local Government and Public Involvement in Health Act 2007.

- ❖ The Council's current scrutiny arrangements have been in place since May 2010. It comprises three scrutiny committees - the Scrutiny Committee, Education Scrutiny Committee and Health Scrutiny Committee.

  The Forward Plan appears on the committees' agendas and cabinet members are regularly called to committees to be questioned about areas of policy. The committees appoint task groups to undertake scrutiny reviews which are then considered by the relevant committee for adoption. When recommendations are made to a cabinet member, there is a protocol under which an initial response will be provided to the committee within three months. During the year scrutiny reviews have included consideration of safeguarding adults, access to county museums and looked after children from outside Lancashire. The functions of the Scrutiny Committee include scrutiny of the authority's crime and disorder partnership, which is the Safer Lancashire Board. The committee met to consider these arrangements during the year.

  To date, no decisions have been 'called in' in this authority, although during the year, scrutiny committees held special meetings on two occasions to deliberate whether a decision should be called in.

  The Health Scrutiny Committee has the statutory role of scrutinising proposed significant variations in service delivery in the health service. In this geographically large county, that involves working with three primary care trusts, six acute trusts and several specialist trusts (such as mental health, physical disabilities and ambulance trusts). A number of trusts straddle our borders so that joint working has been undertaken with the two unitary authorities in our area, Blackburn with Darwen and Blackpool, and also with adjoining

authorities. With the many changes taking place in the health service this has entailed a heavy workload for this committee. It has worked hard at forming and maintaining productive relationships with the various health trusts. This year, the Health Scrutiny Committee has used its statutory power to refer substantial variations to the health service in the area proposed by the NHS on two occasions. On both occasions, the Secretary of State declined the request for an independent review.

- The authority has a Standards Committee which complies with statutory requirements. It has kept itself fully updated on the Government's proposals to abolish the national standards regime during 2011/12. Since May 2008 it has had the additional statutory role of acting as the local filter for complaints when there has been a breach of the code of member conduct. Of 20 complaints in total since that period only 3 cases have been referred for investigation, a demonstration of the generally high standards of conduct of members of the authority. There is a report of the committee's proceedings to each meeting of the Full Council and the committee has undertaken monitoring of compliance with both member and officer codes.

- The authority has an Audit Committee in place which operates in accordance with CIPFA guidance. It has delegated to it approval of the annual statement of accounts and also this annual governance statement. It receives appropriate training for the work that it does, and regularly conducts a review of its manner of operation.

- The authority has a well regarded internal audit service that works with officers to assess and develop the control environment, and which supports management's assessment of compliance with established policies, procedures, laws and regulations.

- The authority's internal audit service provides a counter fraud and investigatory service through its annual Counter Fraud Plan and produces an Annual Report on Counter Fraud and Special Investigations for the Audit and Standards Committees.

- The scheme of delegation to officers enables decisions to be taken at the most appropriate and effective level. The Constitution includes a Protocol on County Councillor/Officer Relations, providing the foundation for good and regular information flowing between officers and members. Reviews of the scheme of delegation and the protocol are to be held during 2011/12.

- Standing Orders, Financial Regulations and the Scheme of Delegation are embedded within the county council and under constant review. There are common templates for reports to committees and the cabinet, and also for decisions made by cabinet members. Cabinet member decision-making is governed by a decision-making protocol and takes place in accordance with a pre-arranged programme. There is a Corporate Risk Management Policy and Strategy and also guidance on risk management available to officers.

- The process for ensuring legality and financial probity in relation to decisions has a number of components:

    - The decision-making protocol mentioned above.

    - Within that protocol, officers formulating reports are required to have regard to particular issues and in particular take legal and/or financial advice at an early stage if that is warranted.

- All reports leading to decisions are checked within the office of the county secretary and solicitor to ensure that governance issues are identified and statutory and financial requirements are complied with.

- Corporate advice and guidance is provided on the public sector equality duty contained within the Equality Act 2010 and includes an Equality Impact Assessment template. This is to be reviewed during 2011/12.

❖ There is an effective whistle blowing procedure which is regularly used. Reports on the level of use and outcomes are presented to the Standards Committee. There is a two-stage general complaints procedure and also specific complaints procedures for Children and Young People and Adult Social Care, which follow the relevant statutory guidance. In the general procedure, after initial investigation, if a complainant remains dissatisfied they have access to a panel of county councillors who they have the right to address in person.

❖ There is a cross-party member development working group in place with the remit of planning and co-ordinating member development activities to meet individual and group needs. Officer training is overseen through a new performance and development review process which was rolled out to all officers during 2011.

❖ A number of communication tools have already been identified, such as the Living in Lancashire Panel. However, the authority is aware that for communication with the community to be effective, it needs to be approached on a number of levels. Other examples are:

  - Cabinet in the Community – Cabinet members have a 'Question Time' in various parts of the county facilitated by a local journalist.

  - Council and committee meetings are web-cast.

  - There is member representation on neighbourhood management boards across Lancashire.

Review of effectiveness

The authority has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectors. The authority is also required to review the effectiveness of internal audit and this has been undertaken by the county treasurer.

The authority's code of corporate governance has been approved by the cabinet and considered by Full Council, the Audit Committee and the former County Management Board (now Management Team.)

This Annual Governance Statement was considered for approval by the Audit Committee on 27th June 2011, and will be reported to the Standards Committee on 30th June. It will thereafter be considered by the council on 21 July.

Statements of assurance have been signed by executive directors as to the effectiveness of the governance arrangements for which they are responsible, including the system of internal control. The statements of assurance cover all the principles set out in the authority's Code of Corporate Governance. The statements of assurance reveal no significant areas of weakness in the authority's corporate governance arrangements; the arrangements have been categorised as either good or adequate.

Programme of improvement on governance issues

In her annual report, the head of internal audit reports her concern that the procurement processes followed across the council have not in all cases followed corporate procedures. The head of internal audit has also highlighted that the council's arrangements to counter risks arising from the employee's conflicts of interest are currently inadequate and the need to strengthen the arrangements relating to officers' declaration of interests.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

The authority will, in the coming year, review its governance arrangements as the proposals to abolish the current national standards regime progress and as additional responsibilities are placed upon Audit Committees in relation to the appointment of external auditors.

In addition, the authority has a project plan in place to respond to the potential governance structures to emerge from the proposed significant changes to the health service and the duties this will place on local authorities.

Signed:

Date: 27 June 2011

Geoff Driver
Leader of Lancashire County Council

Date: 27 June 2011

Phil Halsall
Chief Executive of Lancashire County Council

Financial Statements

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the County Fund balance for council tax setting and dwellings rent setting purposes. The Net Increase/Decrease before transfers to earmarked reserves line shows the statutory County Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

2009/10 Comparative Year

	County Fund	Earmarked Revenue Reserves	Trading Reserves (note 13)	Capital Funding Reserves	Usable Capital Receipts Reserve	Capital Grants Unapplied	**Total Usable Reserves**	**Total Unusable Reserves (note 8)**	**Total Reserves**
Balance at 1st April 2009	**23,127**	**146,466**	**1,712**	**23,926**	**16,584**	**36,834**	**248,649**	**560,412**	**809,061**
Movement in Reserves									
(Surplus)/Deficit on Provision on Service	39,459	-	-	-	**-**	**-**	**39,459**	**-**	**39,459**
Other Comprehensive Income & Expenditure (note 10)	-	-	-	-	**-**	**-**	**-**	**(170,374)**	**(170,374)**
Total Comprehensive Income & Expenditure	39,459	-	-	-	**-**	**-**	**39.459**	**(170,374)**	**(130,915)**

Adjustments Between Accounting Basis & Funding Basis Under Regulations (note 9)	(30,607)	-	-	-	4664	15,876	**(10,068)**	**10,068**	**-**
Net Increase/Decrease before Transfers to Earmarked Reserves	**8,852**	**-**	**-**	**-**	**4,664**	**15,876**	**29,392**	**(160,306)**	**(130,915)**
Transfers to/from Earmarked Reserves (note 11 & 12)	**24,866**	**(11,327)**	**533**	**(14,072)**	**-**	**-**	**-**	**-**	**-**
Other Movement	**-**	**-**	**(11)**	**-**	**-**	**3,829**	**3,818**	**(4,054)**	**(236)**
Increase/Decrease in Year	**33,718**	**(11,327)**	**522**	**(14,072)**	**4,664**	**19,704**	**33,209**	**(164,359)**	**(131,150)**
Balance at 31st March 2010 Carried Forward	**56,844**	**135,139**	**2,234**	**9,854**	**21,248**	**56,538**	**281,857**	**396,053**	**677,911**

2010/11

	County Fund	Earmarked Revenue Reserves	Trading Reserves (note 13)	Capital Funding Reserves	Usable Capital Receipts Reserve	Capital Grants Unapplied	**Total Usable Reserves**	**Total Unusable Reserves (note 8)**	**Total Reserves**
Balance at 1st April 2010	**56,844**	**135,139**	**2,234**	**9,854**	**21,248**	**56,537**	**281,857**	**396,053**	**677,911**
Movement in Reserves									
(Surplus)/Deficit on Provision on Service	128,034	-	-	-	-	-	**128,034**	-	**128,034**
Other Comprehensive Income & Expenditure (note 10)	-	-	-	-	-	-	-	**297,648**	**297,648**
Total Comprehensive Income & Expenditure	**128,034**	**-**	**-**	**-**	**-**	**-**	**128,034**	**297,648**	**425,681**
Adjustments Between Accounting Basis & Funding Basis Under Regulations (note 9)	(88,790)	-	-	-	2,896	2,125	**(83,769)**	**83,769**	**-**

Net Increase/Decrease before Transfers to Earmarked Reserves	**39,244**	**-**	**-**	**-**	**2,896**	**2,125**	**44,265**	**381,416**	**425,681**
Transfers to/from Earmarked Reserves (note 11 & 12)	(54,094)	50,741	1,481	1,872	**-**	**-**	**-**	**-**	**-**
Other Movement	(69)	-	-	-	**-**	**-**	**(68)**	**(9,070)**	**(9,138)**
Increase/Decrease in Year	**(14,915)**	**50,741**	**1,481**	**1,872**	**2,896**	**2,125**	**44,197**	**372,346**	**416,544**
Balance at 31st March 2011 Carried Forward	**41,925**	**185,880**	**3,715**	**11,727**	**24,144**	**58,663**	**326,054**	**768,400**	**1,094,454**

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in year of providing services in accordance with generally accepted practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from accounting costs. The taxation is shown in the Movement in Reserves Statement.

	2010/11 Gross expenditure £000	2010/11 Gross Income £000	2010/11 Net £000	2009/10 Gross expenditure £000	2009/10 Gross Income £000	2009/10 Net £000
Cultural, Environmental, Regulatory and Planning Services	150,120	(25,604)	124,516	99,983	(16,361)	83,622
Children's and Education Services	1,268,334	(1,031,229)	237,105	1,157,220	(932,516)	224,704
Highways and Transport Services	120,327	(24,016)	96,311	114,438	(24,129)	90,309
Adult Social Care	477,315	(124,518)	352,797	461,005	(144,123)	316,882
Central Services to the Public	6,924	(1,799)	5,125	7,252	(1,483)	5,769
Corporate and Democratic core	28,046	(13,784)	14,262	18,620	(3,210)	15,410
Non Distributed Costs	23,002	(28,596)	(5,594)	48,127	(27,828)	20,299
NDC – Past Service Costs *	(153,463)	-	(153,463)	-	-	-
Travellers' Sites	107	-	107	154	-	154
Surplus / Deficit on Continuing Operations	**1,920,712**	**(1,249,546)**	**671,166**	**1,906,799**	**(1,149,650)**	**757,149**
Payment of Precepts to Parishes	-	-	-	-	-	-
Levies Payable	790	-	790	778	-	778
Gain/loss on disposal of Non Current Assets	21,210	-	21,210	537	-	537
Gain/loss on disposal of intangibles	-	-	-	-	-	-
Other Operating Income and Expenditure	**22,000**	**-**	**22,000**	**1,315**	**-**	**1,315**
Interest payable on debt	18,907	-	18,907	23,030	(22)	23,008
Interest element of finance leases (lessee)	-	-	-	-	-	-
Interest payable on PFI unitary payments	14,452	-	14,452	8,538	-	8,538
Premium on early repayment of debt	30,115	-	30,115	-	-	-
Impairment of Financial instruments	977	-	977	-	-	-
Pension interest income	-	-	-	-	-	-
Expected return on pension assets	148,744	(103,312)	45,432	137,274	(76,687)	60,587
Investment interest on income	1	(17,779)	(17,778)	3	(8,097)	(8,094)
Interest received on finance	-	-	-	-	-	-

leases (lessor)						
Discount for early repayment of debt	-	(452)	(452)	-	-	-
Changes in fair value of investment properties	52	-	52	-	(982)	(982)
Gain/loss on disposal of investment properties	-	-	-	-	-	-
Gain/loss on trading accounts (not applicable to service)	4,151	(11,118)	(6,967)	3,629	(8,993)	(5,364)
Financing Investment Income and Expenditure	**217,399**	**(132,661)**	**84,738**	**172,474**	**94,781**	**77,693**
Recognised Capital grants and Contributions	-	(100,173)	(100,173)	-	(108,059)	(108,059)
Council Tax	-	(424,878)	(424,878)	-	(422,760)	(422,760)
NNDR	-	(263,798)	(263,798)	-	(233,576)	(233,576)
RSG	-	(38,306)	(38,306)	-	(53,912)	(53,912)
Non service related government grants	-	(78,783)	(78,783)	-	(57,309)	(57,309)
Taxation and Non Specific Grant Income	**-**	**(905,938)**	**(905,938)**		**(875,616)**	**(875,616)**
Group Surplus or Deficit	**2,160,111**	**(2,288,145)**	**(128,034)**	**2,080,588**	**(2,120,047)**	**(39,459)**
(Surplus)/ Deficit on revaluation of non current assets	-	-	(119,057)	-	-	(111,861)
(Surplus)/Deficit on revaluation of available for sale assets - Generally movement in AfS FI's	-	-	-	-	-	4,076
Actuarial (gains)/losses on pension assets/liabilities - Matching the entry to the pensions reserve	-	-	(178,590)	-	-	282,224
Share of other Comprehensive Income & Expenditure of associates and joint ventures	-	-	-	-	-	-
Other (Gains)/Losses	-	-	9,138	-	-	(3,830)
Other Comprehensive Income and Expenditure	-	-	-	-	-	-
Total Comprehensive Income and Expenditure	-	-	**(416,543)**	-	-	**131,150**

* Non Distributed Costs (NDC) – Past Service Costs, is an exceptional item which has been shown separately on the face of the CIES. This Past Pension Service Gain amounting to £153.463million follows the principles of International Accounting Standard 8 (IAS 8).

Balance sheet

The balance sheet shows the value as at the Balance Sheet date of assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitation on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services (unusable reserves). This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

1st April 2009	31st March 2010		Notes	31st March 2011
£000	**£000**			**£000**
1,985,163	2,203,571	Property Plant and Equipment	35	2,427,754
3,960	4,942	Investment Property	36	5,451
336	237	Intangible Assets	37	1,613
-	-	Assets Held for Sale (over 12 months)	-	-
30,820	61,130	Long Term Investments	38	276,088
54,797	50,907	Long Term Debtors	46	47,900
3,513	3,388	Deferred Consideration	56	3,263
2,078,589	**2,324,175**	**Long Term Assets**		**2,762,069**
166,870	152,039	Short Term Investments	38	169,371
-	-	Intangible Current Assets (LATS)	-	-
3,283	3,127	Inventories	45	3,565
84,188	85,816	Short Term Debtors	46	94,990
7,241	3,793	Payments in Advance	49	3,693
123,673	244,520	Cash and Cash Equivalents	48	71,356
2,322	2,749	Assets Held for Sale (less than 12 months)	52	2,365
387,577	**492,044**	**Current Assets**		**345,340**
(17,385)	(109,926)	Short Term Borrowing	38	(355,609)
(163,736)	(174,681)	Short Term Creditors	47	(151,243)

(22,712)	(40,930)	Receipts in Advance	50	(31,514)
(54,345)	(55,471)	Short Term Provisions	51	(52,397)
(258,178)	**(381,008)**	**Current Liabilities**		**(590,763)**
-	-	Long Term Creditors	-	-
(37,241)	(50,881)	Long Term Provisions	51	(29,058)
(613,623)	(645,857)	Long Term Borrowing	38	(627,112)
(748,063)	(1,060,562)	Other Long Term Liabilities	38, 57 & 67	(766,022)
-	-	Donated Asset Account	-	-
-	-	Capital Grants Receipts in Advance	-	-
(1,398,927)	**(1,757,300)**	**Long Term Liabilities**	-	**(1,422,192)**
809,061	**677,911**	**Net Assets**	-	**1,094,454**
248,649	281,858	Usable Reserves *	9 & 11	326,054
560,412	396,053	Unusable Reserves	53	768,400
809,061	**677,911**	**Total Reserves**		**1,094,454**

Note - the actual Movement in Reserves Statement also provides details of the movements in the Usable Reserves.

Cash flow statement

2009/10 restated £000		Note	2010/11 £000
(39,459)	Net (surplus) or deficit on the provision of services	58	(128,034)
(411,005)	Adjustment to surplus or deficit on the provision of services for non cash movements	58	(432,202)
366,654	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	58	586,079
(83,810)	Net Cash flows from Operating activities	58	25,843
55,370	Net Cash flows from Investing Activities	60	291,029
(92,407)	Net Cash flows from Financing Activities	61	(143,708)
(120,847)	Net increase or decrease in cash and cash equivalents		173,164
(123,673)	Cash and cash equivalents at the beginning of the reporting period	62	(244,520)
(244,520)	**Cash and cash equivalents at the end of the reporting period**	**62**	**(71,356)**

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents a true and fair view of the financial position of the authority at 31 March 2011 and its income and expenditure for the year then ended.

Gill Kilpatrick CPFA
County Treasurer
29 June 2011

County Councillor Sam Chapman
Chairman, Audit Committee
27 September 2011

Notes to the financial statements

General Notes

1. Statement of Accounting Policies

1. General

The Statement of Accounts summarises the council's transactions for the 2010/11 financial year and its position at the year end of 31 March 2011. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations, which require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 and the Best Value Accounting Code of Practice 2010/11, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

The balance sheet does not include the balances of the Lancashire County Pension Fund and several small trust funds, which are presented in separate statements. Most of the trust funds have been set up as a result of gifts and bequests to be used for the benefit of children, students or clients at particular schools, colleges, homes or in specific areas.

2. Accruals of income and expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services.

- Supplies are recorded as expenditure when they are consumed; where there is a gap between the date supplies are received and their consumption they are carried as stocks on the balance sheet.

- Works are charged as expenditure when they are completed, before which they are carried as works in progress on the balance sheet.

- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where income and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Debtors and creditors have been included in the accounts at year end on an actual or estimated basis in line with the accruals concept. Estimated debtors and creditors have only been included if they are material, which is defined as:

  - £1,000 or more for primary schools, nursery schools and pupil referral units; and
  - £5,000 or more for secondary schools and all other council services.

Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

3. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature or are available for recall in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. This category will include cash on call and three months or less term deposit and also instant access money market funds.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the authority's cash management.

4. Prior Period Adjustments, Changes in Accounting Policies, Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

5. Reserves

The council sets aside specific amounts as reserves for future policy purposes or to cover contingencies (see the details in notes 11 and 12 to the accounts). Reserves are created by appropriating amounts out of the County Fund balance in the Movement in Reserves Statement.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the County Fund in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, and retirement and employee benefits and do not represent usable resources for the authority – these reserves are explained in the relevant policies.

6. Provisions

Provisions are made where an event has taken place that gives the council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the balance sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settled a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled. Details of our provisions are given in note 51 to the accounts.

7. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the authority as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the authority.

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the authority can be determined by reference to an active market. In practice, no intangible asset held by the authority meets this criterion and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the County Fund balance. The gains and losses are therefore reversed out of the County Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

8. Property, Plant and Equipment

Physical assets held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised provided the benefits accruing from the expenditure is for more than one year. This expenditure is accounted for on an accruals basis provided that it is probable that the future economic benefits or service potential associated with the item will flow to the authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as a revenue expense when it is incurred.

Measurement

For assets that are purchased, they are initially recognised at cost. The cost comprises of:

- The purchase price.
- Any costs attributable to bringing the asset to the location and condition necessary for it to be operational.
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Assets that are being constructed by the authority will initially be recognised at cost. Only those costs that can be directly attributable to bringing the asset into operation will be capitalised.

The authority does not capitalise borrowing costs incurred whilst assets are under construction.

Alternative ways of acquiring assets are either via an exchange or an asset is donated. Where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the authority.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the County Fund balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

Infrastructure, community assets and assets under construction – depreciated historical cost; although for certain community assets which were acquired years ago they are included at a notional amount of £1.

All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets, principally furniture and equipment, that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains unless the gain reverses a loss previously charged to a service. In such circumstances the gain up to the amount of the loss will be credited to the Comprehensive Income and Expenditure Statement.

Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- Vehicles, plant, furniture and equipment – on a straight line over 10 years.
- Infrastructure – straight-line allocation over the estimated life of the asset. This varies from 20 to 50 years depending upon the nature of the asset.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. In considering whether or not there is a component the policy followed is:

- The land element will continue to be considered as a separate asset with its own valuation which, except in very unusual circumstances, will not be subject to depreciation.
- The asset will be reviewed and any part of the asset which can be identified as a self contained building will be subject to a separate valuation and asset life. This will ensure any part of the overall asset which is not of the same construction quality, has a specific use and/or economic life will be identified.
- For any building with a value above £2 million consideration will be given as to whether or not there is any significant part which requires a separate component. This will take into consideration as to whether there is any aspect of the construction, such as the roof, windows; any specialist item is such that a separate component will be ascertained. For the purposes of this exercise it is considered that an element that represents more than 25% of the valuation is considered significant.
- Any equipment which is a fixture of the building will be included within the overall assets valuation. There will be a separate valuation if it is likely to exceed 25% of the property value.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the surplus or deficit on the Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposal (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of the disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. These are credited to the Capital Receipts Reserve, and can then only be used for new capital investment or be set aside to reduce the authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the County Fund balance in the Movement in Reserve Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing.

Amounts are appropriated to the Capital Adjustment Account from the County Fund balance in the Movement in Reserve Statement.

9. Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service.
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off.

- Amortisation of intangible fixed assets attributable to the service.

The authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual charge to revenue towards the reduction in its overall borrowing requirement which is calculated on a prudent basis determined in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the County Fund balance (minimum revenue provision), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Fixed assets not owned by the council

Some voluntary-aided and controlled schools are owned by the school governors. However these schools are included in our fixed assets as we receive the benefit from using the properties in terms of the delivery services and also meet their costs of service provision, using the assets and the costs of maintaining them.

In total, £537 million of fixed assets not owned by us are included in the balance sheet.

10. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserve from the County Fund to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

11. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the County Fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the County Fund balance. The gains and losses are therefore reversed out of the County Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Accounts and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

12. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2010/11 (BVACOP). The total absorption costing principle is used; the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and democratic core – costs relating to the council's status as a multi-functional, democratic organisation.
- Non-distributed costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in BVACOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of the Net Expenditure on Continuing Services.

Where CIPFA's Best Value Accounting Code of Practice requires support services to be recharged, this has been done on the following bases.

- The cost of administrative offices is based on the floor area occupied by each service.
- The Information Services Group's charges are allocated wherever possible on output measures. This means that creditor payment costs are allocated as a charge per invoice, payroll administration costs are based on charges per payslip, and the central computer's costs are based on machine usage, and so on.
- The Finance Group's charges for accountancy and auditing are based on staff time.
- The Property Service Group's costs are allocated on several bases in line with commercial practice, for example linked to professional fee scales and relevant discounts.
- The Legal Services Group's charges are based on staff time, whilst the Corporate Personnel Group's costs are based on staff numbers.
- Costs defined under the Best Value Accounting Code of Practice as falling within corporate and democratic core services and central overheads can not be apportioned (for example, member services) are charged to a separate account.

13. Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the (FIFO/weighted average) costing formula.

Long term contracts are accounted for on the basis of charging the surplus or deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

14. Government Grants and Contributions (revenue)

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the authority when there is reasonable assurance that:

- the authority will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the County Fund balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

15. Area Based Grant

Area Based Grant (ABG) is a general grant allocated by central government directly to local authorities as additional revenue funding. ABG is non-ring fenced and is credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

16. Leases

Leases are classified as finance leases where the terms of the lease transfers substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The authority does not hold any finance leases.

The Authority as Lessee

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The Authority as a Lessor

Operating Leases

Where the authority grants an operating lease over a property or an item or plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiation and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

17. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits and are recognised as an expense for services in the year in which employees render service to the authority. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the surplus or deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the continuing operations costs in the Comprehensive Income and Expenditure Statement, when the authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the County Fund balance to be charged with the amount payable by the authority to

the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

Pension Arrangements

Employees of the council are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE)

- The Local Government Pensions Scheme, administered by Lancashire County Council.

Both schemes provided defined benefits to members (retirement lump sums and pensions), earned as employees worked for the council.

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the education service revenue account is charged with the employer's contributions payable to teachers' pensions in the year.

Local Government Pension Scheme

The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Local Government Pension Scheme attributable to the council are included in the balance sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

- Liabilities are discounted to their value at current prices, using a discount rate of 5.5%; this was based on a weighted average of "spot yields" on AA rated corporate bonds.

- The assets of the Local Government Pension Fund attributable to the council are included in the balance sheet at their fair value:

- quoted securities – current bid price;

- unquoted securities – professional estimate;

- unitised securities – current bid price; and

- property – market value.

- The change in the net pensions liability is analysed into seven components:

  - current service cost – the increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of the Non Distributed Costs.

  - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

  - expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return, credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

  - gains/losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees, debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.

  - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions, debited to the Pensions Reserve.

  - Contributions paid to the Local Government Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the County Fund balance to be charged with the amount payable by the authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement Benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the County Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary benefits

The council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the

award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

18. Private Finance Initiatives (PFI)

Current Status of PFI Projects

The PFI arrangement for Fleetwood Sports College (formerly known as Fleetwood High School) is a continuing commitment for 25 years from September 2002.

We have signed four separate PFI contracts for different phases of the Building Schools for the Future initiative. The schools opened between September 2008 and September 2010. Each contract will run for 25 years from the opening date. Payments to the PFI contractor begin when the schools open.

Revenue transactions and balance sheet entries relating to the above schemes are explained in note 29.

We have also signed a PFI contract with Global Renewables Lancashire (GRL) Limited for waste treatment facilities in Leyland and Thornton. The facilities will receive and process "green" garden and kitchen waste, "recyclable" waste such as paper, glass, aluminium cans and textiles, and "black bag" rubbish from households in Lancashire and Blackpool. Blackpool Council is our partner for the project and will contribute towards the costs. The basis of the partnership is set out in a joint working agreement. The facilities started receiving waste in 2010 entering a test or "ramp up" period.

Accounting for PFI

PFI contracts are agreements to receive services, where responsibility for making available the property plant and equipment needed to provide services passes to the PFI contractor. As the authority is deemed to control the services that are provided under our PFI schemes, and as ownership of the property, plant and equipment will pass to the authority at the end of the contracts for no additional charge, the authority carries the assets used under the contracts on the Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operation to pay for the capital investment. For the BSF Schemes the liability was written down by an initial capital contribution of £10.5 million (phase 1) and £1.609 million (phase 2a).

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement

- finance cost – an interest charge which varies for each scheme but lies in the range of 8.03% to 11.24% on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).

- Lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

Recognition of assets and liabilities

Properties used in the PFI schemes are now recognised as fixed assets of the Council. A related liability is also recognised. The asset and liability are recognised when the asset is made available for use. Separate assets are recognised in respect of land and buildings where appropriate. The related liability is initially measured at the value of the related asset and subsequently calculated using the same actuarial method used for finance leases.

Once on the balance sheet the PFI assets will be treated in the same way as all other non current assets of the same type including depreciation, impairment and revaluation.

Prepayments

Where the PFI contract requires payments to be made as a lump sum contribution before the related property is recognised as an asset on the balance sheet, such payments are recognised as prepayments. At the point that the property is recognised as an asset, the related liability is also recognised. The prepayment is then applied to reduce the outstanding liability.

Minimum Revenue Provision (MRP)

Assets acquired under a PFI that are recognised on the balance sheet are subject to MRP in the same way as assets acquired using other forms of borrowing. The amounts of MRP are calculated in accordance with the appropriate regulations and statutory guidance. MRP is equal to that element of the unitary charge which is applied to repay the outstanding liability.

Development Costs

The Council's internal and external development costs associated with the procurement of PFI projects are charged to revenue as they are incurred.

Deductions from the Unitary Payment

The PFI contract provides for deductions from the unitary payment in the case of sub standard performance or when the facilities are unavailable.

Deductions for sub standard performance are accounted for as a reduction in the amount paid for the affected services. Deductions arising from unavailability of the property are

apportioned pro rata to the proportions of the service and property elements of the unitary payment:

(a) a reduction for part or all of the property being unavailable for use – this will first be accounted for as an abatement of the contingent lease rentals, then finance costs if contingent rents are insufficient; and
(b) a reduction in the price paid for services whilst services are not being provided accounted for as a reduction in the amount paid for the affected services.

Deductions of either type are accounted for when the Council's entitlement has been established and it is probable that the Council will be able to make the deduction.

19. Financial liabilities

Financial liabilities are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where the repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the County Fund balance to be spread over future years. The authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the County Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

20. Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market for example cash deposits; and

- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments. This category includes, for example, investment bonds such as UK Treasury gilt edged securities.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measure as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the assets have fixed or determinable payments, annual credits to the financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the authority.

Assets are maintained in the balance sheet at fair value. Values are based on the following principles:

- instruments with quoted market prices – the sale or bid market price;

- other instruments with fixed and determinable payments – discounted cash flow analysis; and

- equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value (other than impairment losses) are balanced by an entry in the available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed and determinable payments) or fair value falls below cost (for equity instruments), the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost o the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the de-recognition of the asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Instruments entered into before 1 April 2006

The council entered into a financial guarantee that is not required to be accounted for as a financial instrument. This guarantee is reflected in the Statement of Accounts as a contingent liability (see note 65).

21. Internal loans

Since 2003/04 we have financed vehicles and IT equipment through an internal loans scheme. The arrangement was designed as an alternative to taking out operating leases at commercial rates, directorates and trading operations could borrow funds from the insurance provision and repay them over three years. Before introducing the scheme a risk assessment was carried out and borrowing limits agreed in order to ensure there would be enough resources in the provision to repay any liabilities due at that time. During the financial year 2010/11 the last of the loans funded through this arrangement was repaid and there are now no internal loans outstanding, the insurance provision having been repaid in full.

	2010/11 £000	**2009/10 £000**
Insurance provision	20,251	26,187
Less internal loans reserve	-	(488)
Net Insurance provision	**20,251**	**25,699**

22. Landfill Allowance Trading Scheme

The Landfill Allowance Trading Scheme began on 1 April 2005. Each year we are given permits to landfill a certain amount of biodegradable waste. Landfill allowances, whether allocated by the department for Environment, Food and Rural Affairs (DEFRA) or purchased from another Waste Disposal Authority (WDA) are recognised as current assets and are initially measured at fair value. Landfill allowances allocated by DEFRA are accounted for as a government grant.

After initial recognition, allowances are measured at the lower of cost and net realisable value.

As landfill is used, a liability and an expense are recognised. The liability is discharged either by surrendering allowances or by payment of a cash penalty to DEFRA (or by a combination). The liability is measured at the best estimate of the expenditure required to meet the obligation, normally the market price of the number of allowances required to meet the liability at the reporting date. However, where some of the obligation will be met by paying a cash penalty to DEFRA, that part of its liability is measure at the cost of the penalty

If we do not use our full allowance for the year, we can carry it forward to the next year. Unused allowances carried forward at the end of the year are included in current assets. They are valued at net realisable value.

23. Group accounts

In previous years we have prepared a set of group accounts, but this was reviewed in 2006/07 and a set of group accounts was not prepared.

We have reviewed the position for 2010/11 and again, this year's statement of accounts does not include a set of group accounts due to the following factors:

- The relative lack of materiality of the financial size of the group members compared with the county council.

- The low level of financial risk to the county council from its involvement with the group members: for example many group members are companies limited by guarantee, with the county council's guarantee sum being £1.

- The very low level of involvement of the group members in delivering the council's statutory or significant core services.

The statement of accounts does include, at note 64, a full description of the sixteen organisations within the group boundary, the percentage of voting rights controlled by the council for each group member, and the nature of the council's relationship with them. The note also includes financial information in respect of the profit or loss before tax, turnover, and net assets or liabilities for each group member.

24. Council Tax Agency Arrangements

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and national non-domestic rates (NNDR). The funds key features relevant to accounting for council tax in core financial statements are:

- In its capacity as a billing authority an authority acts as an agent: it collects and distributes council tax income on behalf of the major preceptors and itself.

- While the council tax income for the year credited to the billing authority's Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the County Fund of the billing authority or paid out of the Collection Fund to major preceptors (and in turn credited to their County Fund).

Lancashire County Council is a major preceptor with 12 district and unitary billing authorities.

Up to 2008/09 the SORP required the Council Tax income included in the Comprehensive Income and Expenditure Account to be the amount that, under regulation, was required to be paid from the Collection Funds to the major preceptors. From the year commencing 1 April 2009, for both billing authorities and major preceptors the Council Tax income included in the Comprehensive Income and Expenditure Account for the year is required to be the accrued income for the year.

The difference between the income included in the Comprehensive Income and Expenditure Account and the amount required by regulation to be credited to the County Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement on the County Fund Balance to ensure that there is no impact from this change on the taxpayer.

Since the collection of council tax is, in substance, an agency arrangement, the cash collected by the billing authorities from council taxpayers belongs proportionately to the billing authority and the major preceptors (e.g. Lancashire County Council).

There will therefore be a debtor/creditor position between the billing authorities and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of cash collected from council taxpayers.

In addition, the balance sheet of both billing and precepting authorities will include:

- An attributable share of council tax debtors, net of impairment allowances for doubtful debts;

- An attributable share of creditors for overpaid council tax; and

- A debtor for the billing authorities for cash collected from council tax payers but not paid across, or a creditor for cash paid in advance from council tax payers.

25. Events After the Balance Sheet Date

Events after the balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events.

- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes to the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

26. Contingent Liabilities

A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that the outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts (see note 65).

Contingent Assets

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority (see note 66).

27. Value Added Tax (VAT)

VAT is payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

28. Construction Contracts

Construction contracts are those contracts which the authority is undertaking on behalf of its customers, specifically negotiated for the construction of an asset. The authority has 72 construction contracts in operation relating to Section 278 agreements in which work is carried out on the existing adopted highway for the benefit of a third party, which is usually funded by the third party (e.g. a new supermarket). The full disclosure details are shown in note 44.

2. Prior Period Adjustments – Impact of the Adoption of International Financial Reporting Standards

Explanation of Accounting Changes From UK GAAP Accounting to the Adoption of International Financial Reporting Standards (IFRS) Changes

The Statement of Accounts for 2010/11 is the first to be prepared on an International Financial Reporting Standards (IFRS) basis. Adoption of the IFRS-based Code has resulted in the restatement of certain balances and transactions, with the result that some of the 2009/10 comparative figures presented in the 2010/11 financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10 under UK GAAP accounting.

The following tables highlight the material differences between the amounts presented in the UK GAAP 2009/10 financial statements and the equivalent amounts presented in the 2010/11 IFRS financial statements.

Table 1 - Opening 1 April 2009 Balance Sheet

	Original 2009/10 Statements Under UK GAAP	**Adjustments made**
	£000	**£000**
Property Plant and Equipment	1,995,331	(10,168)
Investment Property	-	3,960
Assets Held for Sale (less than 12 months)	-	2,322
Short Term Investments	262,235	(95,365)
Cash and Cash Equivalents	28,307	95,365
Receipts in Advance	(64,421)	41,709
Short Term Provisions	-	(54,345)
Provisions (long term)	(40,584)	3,344
Government Grants Deferred	(286,407)	286,407
Deferred Credits	(6,547)	6,547
Total Increase in Net Assets		**279,776**
County Fund Balance	20,557	2,571
Revenue Reserves	127,995	18,471
Capital Grant Unapplied Reserve	-	36,834
Revaluation Reserve	538,637	(2,950)
Capital Adjustment Account	549,506	275,852
Accumulated Absences Adjustment Account	-	(51,002)
Total Increase in Reserves		**279,776**

Table 1 shows the adjustments made to the 31st March 2009 Balance Sheet for the implementation of the IFRS to the 1st April 2009 position (opening balance for 2009/10)

Table 2 - 31 March 2010 Balance Sheet

	Original 2009/10 Statements Under UK GAAP	IFRS Adjustments made
	£000	**£000**
Property Plant and Equipment	2,215,710	(1,972)
Investment Property	-	982
Short Term Investments	366,252	(118,848)
Cash and Cash Equivalents	30,308	118,848
Assets held for sale (less than 12 months)	-	427
Receipts in Advance	(93,806)	11,166
Short Term Provisions		(1,125)
Provisions (long term)	(59,361)	5,136
Government Grant Deferred	(346,864)	60,457
Deferred Credits	(15,584)	9,037
Total Increase in Net Assets		**84,108**
Revenue Reserves	111,852	4,816
Capital Grants Unapplied	-	19,703
Revaluation Reserve	645,528	(1,794)
Capital Adjustment Account	530,166	57,373
Accumulated Absences Account	-	4,010
Total Increase in Reserves		**84,108**

Table 2 shows the IFRS adjustments made to the 31st March 2010 Balance Sheet

Table 3 - 2009/10 Comprehensive Income & Expenditure Statement (CIES)

	Original 2009/10 Statements Under UK GAAP	Adjustments made	Final IFRS Adjusted Amount 2009/10
	£000	**£000**	**£000**
Cultural, Environmental, Regulatory and Planning Services	85,062	(1,441)	83,621
Children's and Education Services	201,708	22,995	224,703
Highways and Transport Services	88,104	2,205	90,309
Adult Social Care	315,477	1,405	316,882
Central Services to the Public	5,765	5	5,770
Corporate and Democratic Core	15,352	58	15,410
Non Distributed Costs	19,929	371	20,300
Travellers Sites	170	(17)	153
Other Operating Income and Expenditure	1,661	(346)	1,315
Financing Investment Income and Expenditure	80,853	(3,158)	77,695
Taxation and Non Specific Grant Income	(767,908)	(107,709)	(875,617)
Total Surplus on the Provision of Services in the Comprehensive Income and Expenditure Statement	**46,173**	**(85,632)**	**(39,459)**
Other Adjustments Relating to the Statement of Other Comprehensive Income			
Actuarial (gains)/ losses on the pension fund assets and liabilities	282,224	-	282,224
Disposal and write out of fixed assets	(4,567)	-	(4,567)
(Surplus) deficit arising on revaluation of fixed assets	(115,079)	3,218	(111,861)
Other gains and losses	6,508	(1,695)	4,813
	215,259	**(84,109)**	**131,150**

Table 3 shows the impact of the IFRS Balance Sheet changes on the original 2009/10 Income and Expenditure Account to produce the restated 2009/10 IFRS Comprehensive Income and Expenditure Statement.

International Financial Reporting Standards(IFRS) - Accounting Adjustments

The IFRS accounting adjustments are as follows:

1. Capital Accounting

IFRS accounting has resulted in changes to presentation requirements for the following categories of capital accounting:

(i) **Investment Properties -** property which is held by the authority solely to earn rentals or for capital appreciation, or both, are now defined as Investment Properties and must be shown separately on the face of the Balance Sheet. Investment Properties are not subject to depreciation charges so these costs have been reversed.

(ii) **Assets Held for Sale –** under IFRS accounting rules a much stricter definition is applied for Assets Held for Sale. The assets must be available for immediate sale in their present condition, are being actively marketed, and the sale should be expected to be completed within one year. Assets not meeting this new stricter definition must be disclosed within the Property, Plant and Equipment category in the Balance Sheet.

(iii) **Changes in Valuation –** under IFRS accounting rules there has been a change in the valuation basis for some assets, whereby they have been revalued at market value rather than on a depreciated replacement cost basis.

The impact of the above changes has resulted in the following accounting adjustments:

An increase of £11.845 million in the Property Plant and Equipment assets on the face of the Balance Sheet as at 1st April 2009 (increase of £8.363 million in 2009/10).

An Investment Property asset has been added to the Balance Sheet for £3.960 million as at 1st April 2009 (£982,000 for 2009/10).

An asset has been added to the Balance Sheet under the stricter definition of 'Assets Held for Sale' for £2.322 million as at 1st April 2009 (£427,000 in 2009/10) and the amount of £22.012 million has been removed from the previous category under UK GAAP accounting for surplus assets held for disposal as at 1st April 2009 (£10.334 million removed in 2009/10).

The Revaluation Reserve balance in the Balance Sheet has been reduced by £2.950 million as at 1st April 2009 (£1.794 million reduction for 2009/10). There has also been a reduction in the surplus on the revaluation of fixed assets in the Statement of Other Comprehensive Income of £3.218 million and other capital accounting reclassifications for the amount of £1.695 million (see table 3).

2. Cash and Cash Equivalents

Under accounting rules cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Under IFRS accounting rules the authority is also required identify 'Cash Equivalents' which are defined as investments that mature or are available for recall in three months or less from the date of acquisition, and are readily convertible to known amounts of cash with insignificant risk of change in value.

This new IFRS accounting requirement has resulted in the amount of £95.365 million being reclassified from short term investments to cash equivalents as at 1st April 2009 (£118.848 million in 2009/10).

3. Capital and Revenue Grants and Other Contributions

Capital grants – under IFRS accounting requirements grants and contributions for capital schemes are recognised as income when they become receivable. This income is disclosed on the Taxation and Non-Specific Grant Income line within the Comprehensive Income and Expenditure Statement. Previously, under UK GAAP accounting rules grants were held in a 'Grants Deferred Account' and recognised over the life of the assets which they were used to fund.

Under IFRS accounting rules the classification of Government Grant Deferred liabilities has been removed from the Balance Sheet. Any balances held on the Capital Government Grants Deferred Account as at 1st April 2009 were transferred to the Capital Adjustment Account in the Balance Sheet.

Any capital grants and contributions received but unapplied in 2009/10 were assessed to ascertain whether there were any conditions attached to the funding. Where no conditions were in existence the grant or contribution was recognised as income in the Comprehensive Income and Expenditure Statement and then transferred to a new Capital Grants Unapplied Account. Where a condition attached to the grant or contribution is yet to be satisfied, the monies are held in the Receipts in Advance category within the Balance Sheet.

Revenue Grants and Contributions – under IFRS accounting rules revenue grants and other contributions are recognised as due to the council when there is reasonable assurance that:

- the council will comply with the conditions attached to the grant or contribution and the grants or contributions will be received.
- Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement until any conditions attached to the grants or contributions have been satisfied. Where conditions have not been satisfied this funding is carried as a creditor in the Balance Sheet.
- When conditions are satisfied, the grant or contribution is credited to the relevant service line (if it is a specific grant) or to the Taxation and Non-Specific Grant Income if it is a non ring fenced grant/contribution, in the Comprehensive Income and Expenditure Statement.

- Where there are no conditions attached to the grant/contribution and the amount has been shown as income in the Comprehensive Income and Expenditure account, the funds are held in an earmarked reserve until the funds are actually applied for expenditure.

The overall implementation of the new IFRS accounting rules relating to capital and revenue grants and contributions have resulted in the following changes in the accounts:

£41.709 million has been removed from 'Receipts in Advance' within the Balance Sheet as at 1st April 2009 (£11.166 million removed for 2009/10).

£286.407 million has been removed from 'Government Grants Deferred within the Balance Sheet as at 1st April 2009 (£60.457 million for 2009/10).

£6.547 million has been reclassified from Deferred Credits to Capital Grants Unapplied within the Balance Sheet as at 1st April 2009 (£9.037 million in 2009/10).

££36.834 million has been transferred to the Capital Grants Unapplied Reserve in the Balance Sheet as at 1st April 2009 (£19.703 million for 2009/10).

£18.471 million has been transferred to earmarked revenue reserves in the Balance Sheet as at 1st April 2009 (£4.816 million in 2009/10). In addition, £2.571 million has been transferred to the County Fund Balance for general use rather than a specific earmarked reserve as at 1st April 2009.

£275.852 million has been transferred to the Capital Adjustment Account as at 1st April 2009 in the Balance Sheet (£57.374 million in 2009/10).

£107.709 million has been included as capital grant income in the restated 2009/10 Comprehensive Income and Expenditure Statement (CIES), against the Taxation and Non Specific Grant Income line.

£4.816 million revenue grant has been credited to the 2009/10 CIES, (£4.742 million relates to the reversal of the Waste PFI revenue Government Grant Deferred).

In table 3, £34.364 million expenditure has been debited to the 2009/10 Comprehensive Income and Expenditure Statements across the various expenditure lines. This is due to the reversal of the credits previously drawn down from the Government Grant Deferred Account and reversal of impairment and depreciation costs.

4. Short Term Accumulating Compensated Absences

Short term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which built up as they provide services to the council. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the IFRS Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the council is

required to accrue for any annual leave earned but not taken at 31st March each year. Under previous UK GAAP accounting arrangements, no such accrual was required.

The government has issued regulations that mean local authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

The impact of these new IFRS accounting rules has resulted in the following changes to the accounts:

£51.002 million has been recognised as an accrual in a new provision for 'Short Term Accumulated Absences' as at 1st April 2009 and a net overall reversal movement of these costs of £4.010 million in 2009/10, resulting in a closing balance of £46.992 million as at 31st March 2010. This can be cross referenced to the opening position for the 'Provision for Accumulated Absences' as at 1st April 2010 in the provisions disclosure note number 51. The amount of £4.010 million was also credited to the 2009/10 Comprehensive Income and Expenditure Statement across service expenditure categories.

£51.002 million has been transferred to a new Accumulated Absences Adjustment Account within the reserves category of the Balance Sheet as at 1st April 2009 (£4.010 million in 2009/10).

5. Short Term and Long Term Provisions

Under IFRS accounting requirements provisions are now required to be disclosed as:

Short term provisions – which are expected to crystallize within 12 months and
Long term provisions – which are expected to crystallize after 12 months.

Previously, under UK GAAP accounting all provisions were classified as long term provisions. This new requirement has had the following impact on the Balance Sheet:

£3.344 million has been reclassified from long term to short term provisions as at 1st April 2009 (£5.136 million in 2009/10). However in the provisions disclosure note 51, there is a requirement to still show one table for all total provisions. The supporting narrative provides details of the expected timescales for the crystallization of the provisions.

6. Other Adjustments

The presentation of the interest costs for the Private Finance Initiative (PFI) contracts has been restated. In the original 2009/10 Income and Expenditure Account the interest costs of £10.671 million was shown under the 'Interest Payable and Similar Charges' classification. Within the new IFRS restated 2009/10 Comprehensive Income and Expenditure Statement £8.538 million has been reclassified within the 'Interest Payable on PFI Unitary Payments' category and £2.132 million has been reclassified as 'Statutory Repayment of Debt'.

Overall Net Impact Of IFRS Accounting Adjustments

a. Balance Sheet

The IFRS adjustments have resulted in an increase in net assets and reserves of £279.776 million for the opening 2009/10 Balance Sheet as at 1st April 2009 (see table 1), and a further increase of £84.108 million for the closing 2009/10 Balance Sheet as at 31st March 2010 (see table 2) – an overall increase of £363.884 million.

The original UK GAAP Balance Sheet as at 31st March 2010 had net assets and reserves of £314.027 million. When all of the IFRS adjustments of £363.884 million are taken into accounts this represents a restated IFRS Balance Sheet position with net assets and reserves of £677.911 as at 31st March 2010. This can be cross referenced to the restated 2009/10 IFRS comparative Balance Sheet.

b. Comprehensive Income and Expenditure Statement (CIES)

The IFRS adjustments have resulted in an overall surplus on the provision of services within the CIES of £85.632 million. This has moved the position of the UK GAAP Income and Expenditure Account from a deficit of £46.173 million to a restated position of a £39.459 million surplus on the Provision of Services within the CIES. In addition, further Adjustments in the Statement of Other Comprehensive Income category relating to changes in the valuation of fixed assets and other capital reclassification adjustments amounting to £4.913 million, has resulted in an overall total Comprehensive Income and Expenditure of £131.150 million for 2009/10. This reconciles to the change in the net worth in the IFRS restated Balance Sheet which changed from £809.061 million in 2008/09 to £677.911 million in 2009/10 – an overall change of £131.150 million.

3. Critical judgements in applying accounting policies

The Statement of Accounting Policies is set out in note 1. In applying the accounting policies, the authority has to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the authority might be impaired as a result of a need to close facilities and reduces levels of service provision.

- The authority is deemed to control the services provided under the Private Finance Initiative (PFI) agreement for 12 schools, one library and a faith centre and also to control the residual value of the properties at the end of the agreement. The accounting policies for PFI schemes and similar contracts have been applied to the arrangement and the buildings (valued at £216 million) are recognised as Property, Plant and Equipment on the authority's balance sheet.

- The authority has to decide whether land and buildings owned by the authority are investment properties, whereby they are held solely for rental income or capital appreciation purposes or both. It has been determined that the authority does hold investment properties which have been valued at £5.451 million as at 31st March 2011.

- The authority has to determine whether the leases it enters should be classified as operating or finance leases. The authority must also consider whether contractual arrangements it enters into have the substance of a lease. These judgements are made on the professional opinion of the authority's accountants, valuers and procurement managers based on contract procedure rules and the strict criteria set out in International Accounting Standard 17 (IAS 17) relating to leases. In addition the International Financial Interpretations Committees 4 and 12 (IFRIC 4 and IFRIC 12) contain specific criteria relating to whether contractual arrangements have the substance of a lease. The relevant accounting policy has been applied based on the outcome of the assessment.

- The authority has to determine whether there is a group relationship between the authority and other entities. The accountants have assessed each relationship that exists between the authority and other entities in accordance with the accounting standards and the finance guidance provided by the Chartered Institute of Pubic Finance and Accountancy (CIPFA). The authority's relationships with other entities can been found in note 64. We have reviewed the position for the 2010/11 accounts and again, this year's statement of accounts does not include a set of group accounts due to the following factors:

  (a) The relative lack of materiality of the financial size of the group members compared with that of the council.

  (b) The low level of financial risk to the county council from its involvement with the group members: for example many group members are companies limited by guarantee, the county council's guarantee sum being £1.

  (c) The very low level of involvement of the group members in delivering the council's statutory or significant core services.

- The Valuation and Estates department are required to exercise judgement in determining the carrying value of land and, buildings on the authority's Balance Sheet. The valuations are undertaken by in-house qualified staff that follow best practice. In addition to valuations which are undertaken in year the valuer uses the knowledge of the local market conditions and available national data to assess whether there have been changes which would require a review of all asset values held at 31 March 2011. It was not considered that there was any such need in 2010/11.

4. Accounting Standards that have been issued but have not yet been adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code) has introduced a change in accounting policy in relation to the treatment of heritage assets held by the authority, which will need to be adopted fully by the authority in the 2011/12 financial statements.

The authority is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new standard that been issued, but is not yet required to be adopted by the authority, in this case, heritage assets. As is set out above, full adoption of the standard will be required for the 2011/12 financial statements. The new standard will require that a new class of asset, heritage assets, is disclosed separately on the face of the authority's Balance Sheet in the 2011/12 financial statements.

Heritage assets are held by the authority to promote cultural and historical knowledge and it is estimated that some 150,000 items are held by the Museums service. These are not currently included in the financial statements as many of these items have been held for many years and there is insufficient information on the cost of the assets.

As yet, a valuation exercise as required under the 2011/12 Code has not been undertaken. The authority is also still considering which assets may be excluded from future statements as the cost of obtaining the information is too high in relation to the benefits to the users of the authority's financial statements. This is an exemption permitted by the 2011/12 Code.

5. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the authority's balance sheet at 31st March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Arrears	At 31st March 2011, the authority had a balance of sundry debtors for £37.1 million. A review of significant balances suggested that an impairment of doubtful debts of 19.4% was appropriate. However in the current economic client it is not certain that such an allowance would be sufficient	If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £7.2 million to be set aside as an allowance.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries (Mercers) is engaged to provide the authority with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £204.185 million However, the assumptions interact in complex ways. During 2010/11, the authority's actuaries advised that the net pensions liability had decreased by £146.707 million as a result of estimates being corrected as a result of experience and decreased by a further £2.193 million attributable to updating of the assumptions.
Property, Plant and Equipment	The value of the PPE is dependent upon a professional judgement based on information available at the time of making the value. Due to changes in Economic conditions a valuation taken on a different date could potentially result in a different valuation	Impossible to quantify as economic changes could lead to an increase or decrease in the value of PPE

6. Levies paid to other public bodies

	2010/11 £000	2009/10 £000
Environment Agency – Flood Defence	610	598
Sea Fisheries Committee	180	180
Total	**790**	**778**

7. Statutory charge for the repayment of debt

Our accounts must include a charge for the repayment of debt. This charge must be at least 4% of our adjusted capital financing requirements at the start of the year. For 2010/11 this charge is £24.151 million.

This figure is shown in the Comprehensive Income and Expenditure Account as £23,984million. Blackpool Council pay a contribution towards the capital financing charges related to the Waste PFI site, which in 2010/11 is £167,000. This is deducted from the MRP figure in the Comprehensive Income and Expenditure Account.

As shown in note 9 below, capital charges in the income and expenditure account (depreciation, impairment, amortisation and revenue expenditure funded from capital under statute) are reversed or cancelled out and replaced by this statutory charge.

Notes to the Movement in Reserves Statement

8. Unusable Reserves Movement

2010/11

	Revaluation Reserve	Available for Sale Financial Instruments	Capital Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserves	Collection Fund Adjustment Account	Accumulated Absences Account
Balance at 1st April 2010	640,784	-	863,391	83	(1,059,958)	(1,255)	(46,992)
Movement in Reserves During 2010/11							
Surplus or deficit on provision of services							
Other Comprehensive Expenditure and Income	119,058	-	-	-	178,590	-	-
Total Comprehensive Expenditure and Income	**119,058**	**-**	**-**	**-**	**178,590**	**-**	**-**
Adjustments Between Accounting Basis & Funding Basis Under Regulations	(18,692)	-	1,880	(27,101)	116,156	2,425	9,101
Net Increase/Decrease before Transfers to Earmarked Reserves	**100,366**	**-**	**1,880**	**(27,101)**	**294,746**	**2,425**	**9,101**
Transfers to/from Earmarked Reserves							

Other Movements	-	(7,160)	(3,306)	1,396	-	-	-
Increase/Decrease in Year	**100,366**	**(7,160)**	**(1,426)**	**(25,705)**	**294,746**	**2,425**	**9,101**
Balance at 31st March 2011	**741,150**	**(7,160)**	**861,965**	**(25,622)**	**(765,212)**	**1,170**	**(37,890)**

2009/10

	Revaluation Reserve	Available for Sale Financial Instruments	Capital Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserves	Collection Fund Adjustment Account	Accumulated Absences Account
Balance at 1st April 2009	535,686	-	825,358	55	(747,643)	(2,043)	(51,002)
Movement in Reserves During 2009/10							
Surplus or deficit on provision of services	-	-	-	-	-	-	-
Other Comprehensive Expenditure and Income	111,861	-	(11)	-	(282,224)	-	-
Total Comprehensive Expenditure and Income	**111,861**	**-**	**(11)**	**-**	**(282,224)**	**-**	**-**

Adjustments Between Accounting Basis & Funding Basis Under Regulations	(6,765)	-	42,668	(542)	(30,091)	788	4,010
Net Increase/Decrease before Transfers to Earmarked Reserves	**105,096**	**-**	**42,656**	**(542)**	**(312,315)**	**788**	**4,010**
Transfers to/from Earmarked Reserves	-	-	-	-	-	-	-
Other Movements	-	-	(4,624)	570	-	-	-
Increase/Decrease in Year	**105,096**	**-**	**38,033**	**28**	**(312,315)**	**788**	**4,010**
Balance at 31st March 2010	**640,784**	**-**	**863,391**	**83**	**(1,059,958)**	**(1,255)**	**(46,992)**

9. Adjustments between Funding Basis and Regulation

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the authority in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure.

2010/11 Adjustments

	Useable Reserves £000			Unusable Reserves £000			
	County fund	Capital Receipts Reserve	Capital Grants Unapplied	Capital Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserve	Other Unusable Reserves
Adjustments primarily involving the Capital Adjustment Account:							
Reversal of items debited or credited to the Comprehensive I&E:							
Charges for depreciation and impairment of Non Current Assets	37,985	-	-	(37,985)	-	-	-
Revaluation losses on Property, Plant & Equipment	65,817	-	-	(65,817)	-	-	-
Movements in the market value of Investment property	(52)	-	-	52	-	-	-
Amortisation of Intangible Assets	-	-	-	-	-	-	-
Capital Grants & Contributions Applied	-	-	-	-	-	-	-
Revenue Contribution to Finance Capital Outlay	(2,893)	-	-	2,893	-	-	-
Revenue Expenditure Funded from Capital Under Statute	18,290	-	-	(18,290)	-	-	-
Amounts of NCAs written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive I&E	34,507	(10,380)	-	(23,114)	-	-	(1,014)
Insertion of items not debited or credited to the Comprehensive I&E:							
Statutory provision for the financing of capital investment (MRP)	(24,151)	-	-	24,151	-	-	-

Statutory provision for the financing of capital investment (MRP PFI)	(4,329)	-	-	4,329	-	-	-
Adjustments primarily involving the Capital Grants Unapplied Account:							
Capital grants and contributions unapplied credited to the Comprehensive I&E	(100,107)	-	2,125	97,982	-	-	-
Application of grants to capital financing transferred to CAA							
Adjustments primarily involving the Capital Receipts Reserve:							
Transfer of cash sale proceeds credited as part of the (gain)/loss on disposal to the Comprehensive I&E	(13,275)	13,275	-	-	-	-	-
Use of CRR to finance new capital expenditure	-	-	-	-	-	-	-
Contribution from the CRR towards administrative costs of NCA disposals	-	-	-	-	-	-	-
Contribution from the CRR to finance the payments to the Government capital receipts pool	-	-	-	-	-	-	-
Transfer from Deferred CRR upon receipt of cash	-	-	-	-	-	-	-
Adjustments primarily involving the Deferred Capital Receipts Reserve:							
Transfer of deferred sale proceeds credited as part of the (gain)/loss on disposal to the Comprehensive I&E	-	-	-	-	-	-	-
Adjustment primarily involving the Financial Instruments Adjustment Account:							
Amount by which finance costs charged to the Comprehensive I&E are different from finance costs chargeable in the year in accordance with statutory requirements	27,101*	-	-	-	(27,101)	-	-
Adjustments primarily involving the Pensions Reserve							

Reversal of items related to retirement benefits debited or credited to the Comprehensive I&E (see note 67)	(29,682)	-	-	-	-	29,682	-
Employers pensions contributions and direct payments to pensioners payable in the year	(86,474)	-	-	-	-	86,474	-
Adjustments primarily involving the Collection Fund Adjustment Account:							
Amount by which Council Tax income credited to the I&E is different from Council Tax income calculated for the year in accordance with statutory requirements	(2,425)	-	-	-	-	-	2,425
Adjustments primarily involving the Accumulated Absences Account:							
Amount by which officer remuneration charged to the I&E on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(9,101)	-	-	-	-	-	9,101
Other Adjustments Include:							
Revaluation Reserve:							
Adjustments between RR and CAA for depreciation that is related to the revaluation balance rather than Historic Cost. (current cost depreciation)	-	-	-	7,753	-	-	(7,753)
Write out RR re: academies	-	-	-	9,636	-	-	(9,636)
Reclassification of Balances on RR	-	-	-	288	-	-	(288)
Total Adjustments	**(88,790)**	**2,896**	**2,125**	**1,880**	**(27,101)**	**116,156**	**(7,165)**

2009/10 Comparative Year Adjustments Re-stated

	Useable Reserves £000			Unusable Reserves £000			
	County fund	Capital Receipts Reserve	Capital Grants Unapplied	Capital Adjustment Account	Financial Instruments Adjustment Account	Pensions Reserve	Other Unusable Reserves
Adjustments primarily involving the Capital Adjustment Account:							
Reversal of items debited or credited to the Comprehensive I&E:							
Charges for depreciation and impairment of Non Current Assets	33,868	-	-	(33,868)	-	-	-
Revaluation losses on Property, Plant & Equipment	30,584	-	-	(30,584)	-	-	-
Movements in the market value of Investment property	(982)	-	-	982	-	-	-
Amortisation of Intangible Assets	-	-	-	-	-	-	-
Capital Grants & Contributions Applied							
Revenue Contribution to Finance Capital Outlay	(3.549)	-	-	3,549	-	-	-
Revenue Expenditure Funded from Capital Under Statute	15,405	-	-	(15,405)	-	-	-
Amounts of NCAs written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive I&E	5,354	-	-	(4,979)	-	-	(375)
Insertion of items not debited or credited to the Comprehensive I&E:							
Statutory provision for the financing of capital investment (MRP)	(22,465)	-	-	22,465	-	-	-
Statutory provision for the financing of capital investment (MRP PFI)	(2,132)	-	-	2,132	-	-	-
Adjustments primarily involving the Capital Grants Unapplied							

Account:							
Capital grants and contributions unapplied credited to the Comprehensive I&E	(107,709)	-	15,876	91,833	-	-	-
Application of grants to capital financing transferred to CAA							
Adjustments primarily involving the Capital Receipts Reserve:							
Transfer of cash sale proceeds credited as part of the (gain)/loss on disposal to the Comprehensive I&E	(4,817)	4,817	-	-	-	-	-
Use of CRR to finance new capital expenditure	-	(153)	-	153	-	-	-
Contribution from the CRR towards administrative costs of NCA disposals	-	-	-	-	-	-	-
Contribution from the CRR to finance the payments to the Government capital receipts pool	-	-	-	-	-	-	-
Transfer from Deferred CRR upon receipt of cash	-	-	-	-	-	-	-
Adjustments primarily involving the Deferred Capital Receipts Reserve:							
Transfer of deferred sale proceeds credited as part of the (gain)/loss on disposal to the Comprehensive I&E	-	-	-	-	-	-	-
Adjustment primarily involving the Financial Instruments Adjustment Account:							
Amount by which finance costs charged to the Comprehensive I&E are different from finance costs chargeable in the year in accordance with statutory requirements	542**	-	-	-	(542)	-	-
Adjustments primarily involving the Pensions Reserve							
Reversal of items related to retirement benefits debited or credited to the Comprehensive I&E (see note 67)	111,482	-	-	-	-	(111,482)	-
Employers pensions contributions and direct payments to pensioners payable in the year	(81,390)	-	-	-	-	81,390	-

Adjustments primarily involving the Collection Fund Adjustment Account:							
Amount by which Council Tax income credited to the I&E is different from Council Tax income calculated for the year in accordance with statutory requirements	(788)	-	-	-	-	-	788
Adjustments primarily involving the Accumulated Absences Account:							
Amount by which officer remuneration charged to the I&E on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(4,010)	-	-	-	-	-	4,010
Other Adjustments Include:							
Revaluation Reserve:							
Adjustments between RR and CAA for depreciation that is related to the revaluation balance rather than Historic Cost. (current cost depreciation)	-	-	-	5,912	-	-	(5,912)
Write out RR re: academies	-	-	-	1,259	-	-	(1,259)
Reclassification of Balances on RR	-	-	-	(782)	-	-	782
Total Adjustments	**(30,607)**	**4,664**	**15,876**	**42,668**	**(542)**	**(30,091)**	**(1,966)**

****** The significant variance on the amount by which finance costs charged to the Comprehensive I&E are different from finance costs chargeable in the year in accordance with statutory requirements relates to the net of premiums and discounts removed from the Comprehensive Income and Expenditure Statement to be amortised over the lifetime of the repaid loans in accordance with current accounting standards. In addition amounts previously adjusted in the Comprehensive Income and Expenditure Statement for Icelandic investment impairment has been reversed following the expiry of the regulation which allowed for this adjustment.

10. Other Comprehensive Income and Expenditure

	2010/11 £000	2009/10 £000
Actuarial (Gains)/ Losses on Retirement Benefits	(178,590)	282,224
Unrealised Revaluation Gains	(139,150)	(125,012)
Revaluation Losses Charged to Revaluation Reserve	20,093	13,151
Valuation written out	-	11

11. Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the County fund balances in earmarked reserves to provide financing for future expenditure plans, and the amounts posted back from earmarked reserves to meet County fund expenditure in 2010/11.

	Comparative Year 2009/10 £000			2010/11 £000			
	Balance at 1 April 2009	Net contributions to/(from) 2009/10	Transfers In/(out) 2009/10	Balance at 31 March 2010	Net contributions to/(from) 2010/11	Transfers In/(out) 2010/11	Balance at 31 March 2011
County fund	**20,557**	8,327	27,960	**56,844**	22,076	(36,995)	**41,925**
Earmarked Reserves:							
Schools Delegated Balances	**44,131**	(901)	(404)	**42,826**	8,266	65	**51,157**
DSG Central Items	**3,874**	823		**4,698**	2,393	(1,000)	**6,090**
Devolved Financial Management Schemes Reserve	**17,500**	(5,472)	(9,566)	**2,461**	3,674	(247)	**5,888**
Waste DFM Reserve	**7,258**	17,362	-	**24,620**	(18,871)	7,400	**13,149**
Job Evaluation Reserve	**26,433**	(11,808)	-	**14,625**	12,598	(17,600)	**9,623**
E-Government Reserve	**4,313**	(1,083)	(2,608)	**622**	(22)	-	**600**

Internal Loans Reserve	**(1,528)**	1,040	-	**(488)**	488	-	**-**
Adult Colleges Reserve	**1,745**	(331)	20	**1,434**	-	(1,434)	**-**
Fleetwood Sports College PFI Reserve	**1,389**	(30)	-	**1,359**	(37)	-	**1,322**
PFI BSF Wave 1	**356**	897	-	**1,253**	991	-	**2,244**
Standards Fund Reserve	**573**	-	-	**573**	-	-	**573**
'Supply Teacher Reimbursement	**3,338**	581	-	**3,920**	(2,610)	-	**1,309**
Equalisation Reserves	**832**	(262)	404	**974**	63	(65)	**972**
Children's Fund Reserve	**1,030**	(122)	-	**908**	(593)		**315**
Insurance Reserve	**1,354**	(84)	-	**1,270**	(78)	(250)	**942**
Local Area Business Growth Incentives (LABGI) Scheme reserve	**4,869**	(4,869)	-	**-**	-	-	**-**
New Roads and Street Works Act (s74) reserve	**217**	(115)	-	**101**	(101)	-	**-**
Road Safety Partnership Reserve	**1,202**	58	-	**1,260**	(18)	-	**1,242**
Modernisation Reserve	**2,533**	(2,507)	-	**26**	(20)	(6)	**-**
Children' Social Care Reserve	**-**	5,000	-	**5,000**	(486)	-	**4,514**
Service Transformation	**-**	-	-	**-**	3,600	30,501	**34,101**
Restructures Provision	**-**	-	-	**-**		20,000	**20,000**
Lancashire Partnership LAA Monies	**-**	3,827	-	**3,827**	1,334	-	**5,161**
Adults Early Intervention Reserve	**-**	-	6,000	**6,000**	-	-	**6,000**
Business Improvement Reserve	**-**	(351)	2,608	**2,257**	(739)	(1,517)	**-**
Well Being Reserve	**2,500**	-	(2,500)	**-**	-	-	**-**
Election Reserve	**628**	(528)	-	**100**	157	-	**257**
Fair Funding Reserve	**152**	(881)	-	**(729)**	1,744	-	**1,014**
Miscellaneous Reserves	**3,297**	12,965	(20)	**16,242**	2,226	938	**19,406**
Capital Funding Reserves	**23,926**	1,820	(15,891)	**9,854**	1662	210	**11,727**
Trading Operations Reserves	**1,701**	6,537	(6,003)	**2,234**	1481	-	**3716**
TOTAL EARMARKED RESERVES	**153,622**	**21,567**	**(27,960)**	**147,228**	**17,100**	**36,995**	**201,323**
TOTAL RESERVES	**174,179**	**29,894**	**-**	**204,072**	**36,804**	**-**	**240,876**

12. Revenue reserves

Under the Local Government (Miscellaneous Provisions) Act 1976, we can hold reserves to help us introduce policies in the future. Details of these reserves at 31 March 2011 are set out below.

	£000
Schools and colleges reserve Under the Education Reform Act, schools are given most of their budgets to control themselves. If a school does not spend its entire budget, we hold it as a reserve for them to use in the future. We cannot use this reserve for any other purpose.	51,157
Dedicated schools grant reserve This is the amount carried forward from the schools budget for central items, to be used in support of the Schools Budget in future years.	6,090
Devolved financial management (DFM) schemes reserve This earmarked reserve consists of amounts carried forward for specifically agreed projects within directorates.	5,888
Waste DFM reserve The balance on this reserve will be utilised to meet the one-off costs arising from the implementation of the new waste contract.	13,148
Job Evaluation reserve This was set up to assist with meeting the costs of the job evaluation process as a result of the Single Status Agreement 1997 and the National Pay Agreement 2004.	9,623
E-government reserve This was set up to fund the county's e-government strategy.	600
Fleetwood Sports College PFI scheme reserve This was set up to smooth out annual costs over the life of the PFI contract.	1,322
PFI BSF Wave 1 This was set up to smooth out the annual costs over the life of the PFI contract.	2,244
Standards fund reserve This represents standards fund income carried forward, which must be spent by 31 August.	573
Supply teacher reimbursement reserve This was set up to cover one month's supply teacher reimbursements if the supply scheme ends.	1,309
School equalisation reserve This was set up to meet the future liabilities of any schools that close with deficit balances.	972
Children's Fund Reserve This represents the balance of the 2008/09 allocations from the former Children's Fund to the Local Children's Trust Partnerships	315

to be spent during 2009/10 and 2010/11.

Insurance reserve This covers damage to property and vehicles which is below our insurance excess limit.	942
Road Safety Partnership Reserve This consists of amounts set aside from the Road Safety Partnership for specific Road Safety Issues	1,242
Children's Social Care Reserve This consists of a one-off investment to strengthen safeguarding and to develop an early intervention strategy for looked after children and young people	4,514
Service Transformation Reserve This reserve consists of amounts set aside for up front investment that will enable ongoing improvement in efficiency and deliver future savings.	34,101
Restructure Reserve This reserve has been set up to provide for future costs that will arise from the restructuring of the organisation.	20,000
Adults Early Intervention Reserve This reserve is to meet the front loaded costs associated with building the infrastructure and implementing new arrangements to assist in managing the demographic growth in demand for adult social care services. It will allow for the implementation of early intervention and preventative services based around transitional pathways, Help Direct and Telecare.	6,000
Local Area Agreement Performance Reward Grant Reserve Lancashire County Council has been awarded a total performance reward grant of £19.135m, of which 40% belongs to Lancashire Partnership. As Lancashire Partnership is not a legal entity this reserve has been established so the monies can be accounted for in Lancashire County Council's accounts; with Lancashire County Council being the Accountable Body for Lancashire Partnership.	5,161
Miscellaneous reserves We have several small reserves covering, for example, repairs and maintenance and purchase funds for museums and archives.	20,677
Total revenue reserves	**185,880**

13. Trading operation reserves

These represent the total surpluses from our trading operations. Total changes over the year are summarised below.

	Engineering £000	Commercial £000	Care £000	**Total £000**
Balance at 1 April 2010	**1,406**	**828**	**-**	**2,234**
Contributions to				
Excess Recharges on Communication Equipment	3	-	-	**3**
Loan Account Provision	363			**363**
Income Adjustments	962	-	-	**962**
Planned Premises Income to Reserve	-	1,026	-	**1,026**
Reactive Premises Income to Reserve	-	898	-	**898**
Transfer Reflections Equipment to costs and reserve	-	21	-	**21**
Total Contributions to Reserves:	1,328	1,945	-	**3,273**
Contributions from				
Loss on Car Pool	(2)	-	-	**(2)**
Income Adjustments	(268)	-	-	**(268)**
Planned Premises Costs to Reserve	-	(820)	-	**(820)**
Reactive Premises Costs to Reserve	-	(689)	-	**(689)**
Transfer Reflections Equipment to costs and reserve	-	(12)	-	**(12)**
Total Contributions from Reserves:	(270)	(1,521)	-	**(1,791)**
Net Contributions:	1,058	424	-	1,482
Closing Balance 31 March 2010	**2,464**	**1,251**	**-**	**3,716**

Notes to the Comprehensive Income and Expenditure Statement

14. Material items of income and expenditure

Where items are not disclosed on the face of the Comprehensive I&E statement, the nature and amount of material items should be set in a note. Examples include disposals of items of property, plant and equipment, disposals of investment and reversal of provisions.

15. Other Operating Expenditure

	2010/11	2009/10
	£000	**£000**
Parish Council Precepts	-	-
Levies	790	778
Payment to the Government Housing Capital Receipts Pool		
(Gains)/losses on the disposal of non current assets	21,210	537
Total	**22,000**	**1,315**

16. Financing and Investment Income and Expenditure

	2010/11	2009/10
	£000	**£000**
Interest payable and similar charges	18,907	23,008
Interest payable on PFI unitary payments	14,452	8,538
Payment on early repayment of debt	30,115	-
Impairment of Financial instruments	977	-
Expected return on pension assets	45,432	60,587
Investment interest income	(17,777)	(8,093)
Discount on early repayment of debt	(452)	-
Changes in fair value of investment properties	52	(982)
Gain/loss on trading accounts (not applicable to services)	(6,967)	(5,363)
Total	**84,739**	**77,695**

17. Taxation and Non Specific Grants Incomes

	2010/11 £000	2009/10 £000
Council Tax Income	(424,878)	(422,760)
Non Domestic Rates	(263,797)	(233,576)
Revenue Support Grant	(38,306)	(53,912)
Non Service related Government Grants	(78,784)	(57,309)
Recognised Capital grants and contributions	(100,173)	(108,059)
Total	**(905,938)**	**(875,616)**

18. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by *Best Value Accounting Code of* Practice. However, decisions about resource allocation are taken on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements in particular:

The income and expenditure of the authority's principal Directorates recorded in the budget reports for the year is as follows:

Year Ended 31 March 2011

	Children and Young People Directorate £000s	Adult and Community Services Directorate £000s	Environment Directorate £000s	Other Directorates £000s	Total £000s
Fees, charges & other service income	(77,862)	(75,928)	(34,449)	(47,385)	**(235,624)**
Government grants	(934,825)	(67,027)	(7,355)	(4,646)	**(1,013,853)**
Total Income	**(1,012,687)**	**(142,955)**	**(41,804)**	**(52,031)**	**(1,249,477)**
Employee expenses	755,823	113,658	33,085	67,741	**970,307**
Other operating expenses	470,245	397,862	165,069	46,415	**1,079,591**
Support Service Recharges	13,189	13,422	7,769	(46,483)	**(12,103)**
Total operating expenses	**1,239,257**	**524,942**	**205,923**	**67,673**	**2,037,795**
Net Cost of Services	**226,570**	**381,987**	**164,119**	**15,642**	**788,318**

Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

	£000s
Cost of Services in Service Analysis	**788,318**
Add income & expenditure not included in main analysis	1,497
Add amounts not reported to management	(118,649)*
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	-
Net Cost of Services in Comprehensive Income and Expenditure Statement	**671,166**

*This balance is inclusive of the following amounts:
(£141.837 million) FRS17 past service gains and curtailments
(£2.488 million) LCCG LEI savings
£0.062 Home office and Magistrates balance sheet transfers through the CIES
£25.615 million Depreciation and impairments

(Single Entity)	Service Analysis	Services not in Analysis	Not Reported to mgmt	Not Included in I&E	Allocation Of Recharges	Net Cost of Services	Corporate Amounts	Totals
	£000s	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Fees, charges & other service income	(244,611)	-	(70)	-	8,987	**(235,694)**	(11,571)	**(247,265)**
(Surplus) or deficit on associates and joint ventures	-	-	-	-	-	**-**	-	**-**
Interest and investment income	-	-	-	-	-	**-**	(121,091)	**(121,091)**
Income from council tax	-	-	-	-	-	**-**	(424,878)	**(424,878)**
Government grants and contributions	(1,013,853)	-	-	-	-	**(1,013,853)**	(481,060)	**(1,494,913)**
Total Income	**(1,258,464)**	**-**	**(70)**	**-**	**8,987**	**(1,249,547)**	**(1,038,600)**	**(2,288,147)**
Employee expenses	990,129	(851)	649	-	(19,822)	**970,105**	-	**970,105**
Other service expenses	1,079,834	261	(144,843)	-	(3,995)	**931,257**	4,151	**935,408**
Support Service recharges	(42,450)	-	-	-	30,346	**(12,104)**	-	**(12,104)**
Depreciation, amortisation and impairment	3,752	1,792	25,615	-	-	**31,159**	1,029	**32,187**
Interest Payments	-	296	-	-	-	**296**	33,361	**33,657**
Precepts & Levies	-	-	-	-	-	**-**	179,649	**179,649**
Payments to Housing Capital Receipts Pool	-	-	-	-	-	**-**	-	**-**
(Gain) or Loss on Disposal of Fixed Assets	-	-	-	-	-	**-**	21,210	**21,210**
Total operating expenses	**2,031,265**	**1,498**	**(118,579)**	**-**	**6,529**	**1,920,713**	**239,400**	**2,160,113**
(Surplus) or deficit on the provision of services	**772,801**	**1,498**	**(118,649)**	**-**	**15,516**	**671,166**	**(799,200)**	**(128,034)**

	Children and Young People Directorate £000s	Adults and Community Services Directorate £000s	Environment Directorate £000s	Other Directorates £000s	Total £000s
Fees, charges & other service income	(64,788)	(66,024)	(21,625)	(26,313)	**(178,750)**
Government grants	(851,476)	(99,699)	(1,475)	(7,957)	**(960,607)**
Total Income	**(916,264)**	**(165,723)**	**(23,100)**	**(34,270)**	**(1,139,357)**
Employee expenses	677,200	113,847	27,766	42,222	**861,035**
Other operating expenses	440,299	385,771	75,060	70,725	**971,855**
Support Service Recharges	10,463	20,414	6,495	(41,189)	**(3,817)**
Total operating expenses	**1,127,962**	**520,032**	**109,321**	**71,758**	**1,829,073**
Net Cost of Services	**211,698**	**354,309**	**86,221**	**37,488**	**689,716**

Year Ended 31 March 2010

Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

	£000s
Cost of Services in Service Analysis	**689,716**
Add services not included in main analysis	59,329
Add amounts not reported to management	8,105
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement	-
Net Cost of Services in Comprehensive Income and Expenditure Statement	**757,148**

Reconciliation to Subjective Analysis (Single Entity)	Service Analysis	Services not in Analysis	Not reported to mgmt	Not included in I&E	Allocation of Recharges	Net Cost of Services	Corporate Amounts	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Fees, charges & other service income	(178,750)	(8,189)	-	-	-	**(186,939)**	(8,993)	**(195,932)**
Surplus or deficit on associates and joint ventures	-	-	-	-	-	**-**	-	**-**
Interest and investment income	-	-	-	-	-	**-**	(84,784)	**(84,784)**
Income from council tax	-	-	-	-	-	**-**	(422,760)	**(422,760)**
Government grants and contributions	(960,607)	(2,104)	-	-	-	**(962,711)**	(453,860)	**(1,416,571)**
Total Income	**(1,139,357)**	**(10,293)**	**-**	**-**	**-**	**(1,149,650)**	**(970,397)**	**(2,120,047)**
Employee expenses	861,035	6,829	-	-	-	**867,864**	-	**867,864**
Other service expenses	966,000	48,211	8,103	-	-	**1,022,314**	3,631	**1,025,945**
Support Service recharges	23,293	2,862	-	-	(27,110)	**(955)**	-	**(955)**
Depreciation, amortisation and impairment	5,855	11,720	-	-	-	**17,575**	-	**17,575**
Interest Payments	-	-	-	-	-	**-**	31,571	**31,571**
Precepts & Levies	-	-	-	-	-	**-**	138,052	**138,052**
Payments to Housing Capital Receipts Pool	-	-	-	-	-	**-**	-	**-**
Gain or Loss on Disposal of Fixed Assets	-	-	-	-	-	**-**	536	**536**
Total operating expenses	**1,856,183**	**69,622**	**8,103**	**0**	**(27,110)**	**1,906,798**	**173,790**	**2,080,588**
Surplus or deficit on the provision of services	**716,826**	**59,329**	**8,103**	**0**	**(27,110)**	**757,148**	**(796,607)**	**(39,459)**

19. Grant Income

The authority credited the following grants and contributions to the Comprehensive Income and Expenditure Statement in 2010/11

	2010/11 £000	2009/10 £000
Credited to Taxation and Non Specific Grant Income		
Capital Grants		
Main Government Departments		
Primary Capital Programme	18,038	5,260
Building Schools for the Future	13,770	27,431
Formula Capital for Schools	8,296	20,479
9/10 Alder Grange Learning Centre	5,815	-
Sure Start	6,103	8,708
Co-Location Scheme	4,348	573
Extra Care Housing	3,663	-
Department for Transport - General Grant	3,339	-
Miscellaneous - Various other	21,099	32,916
Other Local Authorities	1,091	1,247
Other Public Bodies		
Care Capital Grant	7,222	4,751
Miscellaneous Other Public Bodies	3,560	3,883
Private Sector	1,662	967
Miscellaneous - Various Other	2,102	1,495
Total Credited to Taxation and Non Specific Grant Income	100,108	107,710
Credited to Services - All Services		
Revenue Grants		
Dedicated Schools Grant	680,138	659,539
Standards Fund Grant	83,426	69,526
Schools Standards Grant	37,186	36,155
Sure Start Early Years & Childcare Grant	37,004	33,590
Post 16 LSC Funding Grant	36,117	26,213
Young Peoples Learning Agency Grant	26,019	-
PFI Grant	18,954	10,942
Adult Learning Grant	8,337	9,201
DCLG Waste PFI Annuity	6,041	5,990
Aiming High for Disabled Children Grant	4,015	1,215
Performance Reward Grant	3,381	47
Various other Grants	17,583	51,308
LD Social Care	32,852	31,595
Mental Health Service	3,528	3,968
Various other Contributions	2,378	2,688
Total	**996,959**	**941,977**

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances at year end are as follows;

	2010/11 £000
Capital Grant Receipts in Advance	174
Revenue Grants and Contributions	
Social Care Reform Grant	7,582
Private Works	6,890
Supporting People Grant	5,023
Other Grants and Contributions	7,196
Total	**26,691**

20. Dedicated Schools Grant

Our spending on schools is funded by the Dedicated Schools Grant (DSG): a grant provided by the Department for Children Schools and Families. DSG can only be used for spending which has been properly included in the schools budget.

This includes:

- some parts of a restricted range of services which we provide across the county (central services); and
- the individual schools budget, which is divided into a budget share for each school

The table below shows how DSG was used for 2010/11:

	Central Expenditure £000	Individual Schools Budget £000	Total £000
Final DSG for 2010/11 (amended for academies October 2010)	59,797	620,341	680,138
Brought forward from 2009/10	4,698	-	4,698
Carry forward to 2011/12 agreed in advance	-	-	-
Agreed budgeted distribution in 2010/11	64,495	620,341	684,836
Actual central expenditure / ISB deployed to Schools	(58,405)	-	(58,405)
Local Authority contribution for 2010/11	-	(620,341)	(620,341)
Underspend carried forward to 2011/12	6,090	-	6,090

NB: The Individual Schools Budget, and spending by schools, is funded by sources other than Dedicated Schools Grant as set out below.

	2010/11 £000	**2009/10 £000**
Dedicated Schools Grant	620,341	582,091
Learning and Skills Council	26,019	26,213
School Standards Grant	36,848	36,155
Allocations from Central Items (Contingency, Schools in Difficulty etc)	2,152	3,324
	685,360	647,783
Less Individual Schools Budget total expenditure	(677,093)	(648,684)
Contributions from Individual School Balances	8,267	(901)

21. Council Tax

Each district council (the "billing authority") collects Council Tax on our behalf and pays it into their collection fund. We then levy a precept on those collection funds to raise the Council's council tax income. We also receive a share of any surplus or deficit in respect of previous year's council tax collections.

	2010/11 £000	**2009/10 £000**
Precept from district council collection funds	(423,623)	(422,957)
Collection fund surplus/(losses)	1,170	985
Budgeted council tax for the year paid by billing authorities	(422,453)	(421,972)
Billing authorities collection fund accruals	(2,425)	(788)
Total Council Tax income shown in the accounts	**(424,878)**	**(422,760)**

22. Publicity

Under section 5 of the Local Government Act 1986 we must declare separately our spending on publicity during the year. In 2010/11 we spent £2.625 million on publicity as set out below.

	2010/11 £000	2009/10 £000
Recruitment advertising	393	967
County information centres	39	40
Welfare rights	1,598	1,898
Other publicity, including corporate communications and information for Council Tax payers	595	852
	2,625	**3,757**

23. Local Authority (Goods and Services) Act 1970

The authority is empowered by this act to provide goods and services to other public bodies. These goods and services can be summarised as follows:

Supply of goods or materials	£1.037 million
Provision of administration, professional and technical services	£19.039 million
Use of vehicle, plant or apparatus belong to the authority	£0.001 million
Lancashire County Council carrying out works of maintenance	£0.151 million

Income from these services amounted to £20.228 million in 2010/11 (2009/10 £14.889 million) and the related expenditure for 2010/11 was £19.411 million.

These services were provided to other public organisations, in particular to the Lancashire Police Authority, further education colleges and other local authorities.

24. Agency Services

District Councils carry out work as the County Councils agents under the street services agreement with spending of £1.175 million as shown below.

	2010/11 £000	2009/10 £000
Expenditure incurred Routine Maintenance	1.083	1.063
Administrative Costs	0.092	0.057
Net Surplus/deficit on agency arrangement	1.175	1.120

25. Pooled budgets

Councils and primary care trusts (PCTs) are allowed to pool funds for a particular service or initiative. We contribute to several pooled funds as described below:

Lancashire County Council and three PCT's (North Lancashire, East Lancashire & Central Lancashire) for the integrated commissioning of services for adults with Learning Disabilities

	2010/11		2009/10	
Funding provided to the Pooled Budget	£000	£000	£000	£000
The Authority	(110,009)		(109,335)	
The Trust	(12,924)		(13,628)	
Other	(10,132)		(10,996)	
		(133,065)		(133,959)
Expenditure met from the Pooled Budget				
The Authority	123,618		120,678	
The Trust	14,026		14,839	
		137,644		135,517
Net (Surplus)/Deficit arising on the Pooled Budget during the year:		4,579		1,558
Authority Share of the Net (Surplus)/Deficit:		4,147		1,362

The Health Act 1999 encouraged health and local authority social care services to develop new flexible partnerships, which for the first time allowed the pooling of resources across agencies, or the development of lead commissioner roles on behalf of the partner or the development of the partner or the development of integrated provision jointly with the partner.

The county council entered into Partnership Agreements with each of the Primary Care Trusts (PCTs) operating within the Lancashire boundary to operate integrated commissioning arrangements supported by pooled budgets for services to adults with Learning Disabilities. Although there were originally 8 pooled funds, these have been combined into 3 as a result of the PCT reconfiguration from October 2006.

The partnership currently includes: Lancashire County Council; North Lancs PCT; Central Lancs PCT and East Lancs PCT.

The intent behind the Partnership Agreement is to ensure effective planning and delivery of integrated and co-ordinated services for adults with learning disability in (North, East/Central) Lancashire, through closer working between the PCT and the Council, pursuant to Section 27 of the Health Act 1999 to meet objectives set out in the PCT or Adult and Community Services Business Plans or similar documents.

The overall objective of the partners is the development of high quality community services for adults with learning disability and their families which support the partners shared aspirations and which:

- Put the needs and wishes of individuals and family carers at the centre of discussions about their lives, so they can directly influence the planning and delivery of service;

- Offer more personalised support options to increase individuals' choice and control whilst recognising the need to manage the cost and quality of supports. Increasingly this will be achieved through specific individualised budgets for each service user;

- Focus on helping adults with learning disabilities to maintain or increase their capacity to lead independent and inclusive lives, where necessary using mainstream services rather than specialist support;

- Increase the range of inclusive accommodation, leisure, education and employment opportunities to continue moves away from large segregated services;

- Develop preventative supports (e.g.' key ring') which can sustain people in their home environment and which allows positive use of assistive technology;

- Promote individual health and well-being in ways which ensure each individual's security and safety from abuse;

- Enable access to good quality health screening and general health services through mainstream primary health services with access to secondary health services where appropriate;

- Support carers to help maintain family members with learning disabilities in their local community, including providing better information to enhance choice and decision-making, and extending options for short break support;

- Develop local support options for a range of needs to reduce the necessity for people to leave their local area to access services;

Lancashire County Council and East Lancashire PCT for the integrated commissioning of services for adults with Mental Health

In addition, we have two Mental Health pooled budgets with historic partnership agreements one with Morecambe Bay PCT and one for Burnley, Pendle and Rossendale NHS Trust.

	2011/12		2010/11	
Funding provided to the Pooled Budget	£000	£000	£000	£000
The Authority	(465)		(1,119)	
The Trust	(426)		(1,061)	
		(891)		(2,180)
Expenditure met from the Pooled Budget				
The Authority	318		1,119	
The Trust	425		975	
		743		2,094
Net (Surplus)/Deficit arising on the Pooled Budget during the year:		(148)		(86)
Authority Share of the Net (Surplus)/Deficit:		(147)		-

The county council entered into the Partnership Agreement in April 2002. Under the current PCT structure the partnership includes Lancashire County Council; North Lancs PCT & East Lancs PCT.

The aims agreed by the partners are to establish a pooled fund for the joint commissioning of services for people with mental health problems in North and East Lancashire, in order to enhance local joint working arrangements and opportunities for services to develop in response to users needs.

The outcomes of the partnership are to include:

- Increased scope for day services to develop in response to the changing needs of users and developments in the wider service opportunities for local managers to develop experience in using pooled funds;

- A clearer understanding on the part of commissioners of the strategic contribution to be made by day services in the support of people with mental health problems, more opportunities for social inclusion as a result of the long term development of mental health day services.

26. External Audit costs

External audit fees were as follows:

	2010/11 £000	2009/10 £000
Fees payable to the Audit Commission with regards to external audit services carried out by the appointed auditor	247	314
Fees payable to the Audit Commission for the certification of grant claims and returns for the year	21	40
Fees payable in respect other services provided by the Audit Commission during the year	-	17
	268	**371**

27. Members' Allowances

The authority paid the following amounts to members of the Council during the year

	2010/11 £000	2009/10 £000
Salaries		
Basic Allowances	841	846
Special responsibility allowances	332	396
Expenses	100	120
Total	**1,273**	**1,362**

Details of the allowances paid can be found on the Council's website:

Go to our website address at www.lancashire.gov.uk

28. Senior Officers Remuneration

Disclosure of senior officers' remuneration 2010/11: Salaries over £150k

Post, title and Name	Notes	Salary (including fees and allowances	Expense allowance	Benefits in kind	Total remuneration excluding pension contributions 2009/10	Pension contributions	Total remuneration including pension contributions 2009/10
		£	£		£	£	£
Chief Executive – G Fitzgerald	Note 1	165,756	413	9,374	175,543	29,505	205,048
Chief Executive – P Halsall	Note 2	32,966	48	898	33,912	6,866	40,778

Note 1 – Ged Fitzgerald left the post of Chief Executive on 6th of February 2011. His annualised salary was £194,655.
Note 2 - Phil Halsall was appointed to the post of Chief Executive from 31st January 2011. His annualised salary was £194,655.
Benefits in kind relate to lease car payments or a cash equivalent sum in place of the entitlement to a lease car.

Disclosure of senior officers' remuneration 2009/10: Salaries over £150k

Post, title and Name	Notes	Salary (including fees and allowances	Expense allowance	Benefits in kind	Total remuneration excluding pension contributions 2009/10	Pension contributions	Total remuneration including pension contributions 2009/10
		£	£		£	£	£
Chief Executive – G Fitzgerald	Note 1	200,274	19,855	12,299	232,428	34,247	266,675

Note 1 – The Chief Executive has a secondary post as a Returning Officer for the elections and received a one off salary payment in July 2009 of £5,620.
Benefit in kind payments includes a Lease car.

Disclosure of senior officers remuneration 2010/11: Remuneration £50k to £150k

Post, title and Name	Notes	Salary (including fees and allowances)	Expense allowance	Benefit in Kind	Total remuneration excluding pension contributions 2009/10	Pension contributions	Total remuneration including pension contributions 2009/10
		£	£		£	£	£
Executive Director for Children & Young People		129,201	1,664	7,099	137,964	22,998	160,962
Executive Director of Adults and Community Services		129,201	314	5,811	135,326	22,998	158,324
County Secretary & Solicitors		129,201	249	5,595	135,045	22,998	158,043
Executive Director for the Environment		124,044	8	5,300	129,352	22,080	151,432
Executive Director of Resources	Note 1	107,320	81	4,402	111,803	19,160	130,963
Executive Director of Policy		129,201	219	5,463	134,883	22,998	157,881
Director of LCCG	Note 2	78,564		6,028	84,592	13,984	98,576
County Treasurer	Note 3	17,547		883	18,430	3,099	21,529

Note 1 - The post of Executive Director of Resources was disestablished on 31st January 2011
Note 2 - The post of Director of LCCG left the Senior management team on 31st January 2011.
Note 3 - The post of County Treasurer was established on 31 January 2011 on an annualised salary of £90,524.35. The County Treasurer's position has taken on the responsibilities of Section 151 duties from the disestablished Executive Director of Resources role.
Benefits in kind relate to lease car payments or a cash equivalent sum in place of the entitlement to a lease car.

Disclosure of senior officers remuneration 2009/10: Remuneration £50k to £150k

Post, title and Name	Notes	Salary (including fees and allowances)	Expense allowance	Benefit in Kind	Total remuneration excluding pension contributions 2009/10	Pension contributions	Total remuneration including pension contributions 2009/10
		£	£		£	£	£
Executive Director for Children & Young People		129,201	447	6,841	136,489	22,093	158,582
Executive Director of Adults and Community Services		129,201	392	5,579	135,172	22,093	157,265
County Secretary & Solicitors		126,624	271	5,839	132,734	21,653	154,387
Executive Director for the Environment - Current post holder	Note 1	120,551	142	5,300	125,993	20,614	146,607
Executive Director for the Environment - Previous post holder	Note 2	14,521	-	556	15,077	2,178	17,255
Executive Director of Resources - Current post holder	Note 3	109,999	130	4,516	114,645	18,827	133,472
Executive Director of Resources - Previous post holder	Note 4	22,511	20	832	23,363	3,849	27,212
Executive Director of Policy		126,624	376	5,164	132,164	21,653	153,817
Director of LCCG		94,648	-	7,553	102,201	16,185	118,386

Note 1 - The current Director for the Environment commenced employment with LCC on 09/02/09 and was in post for the full financial year.
Note 2 - The previous Executive Director for the Environment left this post on 08/05/09 after a hand over period.
Note 3 - The current Executive Director of Resources commenced employment with LCC on 25/05/09 on an annualised salary of £129,201.
Note 4 - The previous Executive Director of Resources retired on 04/06/09.

Benefits in kind relate to lease car payments or a cash equivalent sum in place of the entitlement to a lease car.

We employ around 40,000 permanent members of staff. The table below shows the numbers of employees earning a total remuneration of £50,000 to £150,000 (not including pension contributions).

The senior employees listed in the tables above have not been included in the Number of Employees tables shown below for both 2010/11 and 2009/10.

Number of Employees – 2010/11

£	Non Teaching Staff	Teaching Staff
50,000-54,999	122	352
55,000 - 59,999	78	187
60,000 – 64,999	54	88
65,000 – 69,999	27	41
70,000 - 74,999	16	25
75,000 - 79,999	13	22
80,000 – 84,999	6	12
85,000 – 89,000	4	11
90,000 - 94,999	6	9
95,000 - 99,999	8	3
100,000 - 104,999	2	5
105,000 – 109,999	1	2
110,000 - 114,999	-	-
115,000 – 119,000	1	-
120,000 – 124,999	-	-

125,000 – 129,000	1	-
130,000 – 134,999	-	-
135,000 – 139,999	-	-
140,000 – 144,999	-	-
145,000 – 149,999	-	-
150,000 – 154,999	-	-
155,000 - 159,999	-	-
TOTALS	**339**	**757**

The County Council has been operating a voluntary severance programme for non teaching staff as part of the process of achieving the expenditure reductions required within the Medium Term Financial Strategy. The figures for 20010/11 above include the following numbers of staff who received a redundancy payment in addition to any salary paid up to the point at which their employment ended.

Pay Bands	Number
£50k-£55k	18
£55k-£60k	7
£60k-£65k	1
£65k-£70k	1
£70k-£75k	3
£75k-£80k	5
£125k-£130k	1
Total	**36**

This means that the total number of non teaching employees in continuing employment earning more than £50,000 was 303 at 31.3.2011.

Number of Employees – 2009/10

£	Non Teaching Staff	Teaching Staff
50,000-54,999	91	295
55,000 - 59,999	70	150
60,000 – 64,999	54	76
65,000 – 69,999	34	28
70,000 - 74,999	14	22
75,000 - 79,999	11	18

80,000 – 84,999	3	8
85,000 – 89,000	1	12
90,000 - 94,999	7	6
95,000 - 99,999	8	5
100,000 - 104,999	4	1
105,000 – 109,999	2	-
110,000 - 114,999	-	-
115,000 – 119,000	1	-
120,000 – 124,999	-	-
125,000 – 129,000	-	-
130,000 – 134,999	-	-
135,000 – 139,999	-	-
140,000 – 144,999	-	-
145,000 – 149,999	-	-
150,000 – 154,999	1	
155,000 - 159,999	-	-
TOTALS	**301**	**621**

29. Private Finance Initiative (PFI) Schemes

Fleetwood Sports College (formerly Fleetwood High School)

In 2001 we signed a PFI contract with Fleetwood PPP Limited to build and service a new single-site school. Payments made under the contract are performance-related, so deductions are made if parts of the building are not available or if service performance (including caretaking and maintenance) falls below an agreed standard. The estimated capital value of the scheme is £13.4 million.

The arrangement runs from September 2002 (when the college opened) to August 2027.

The Authority makes an agreed payment each year which is increased by inflation and can be reduced if the contractor fails to meet the agreed availability and performance standards in any year, but is otherwise fixed.

Payments remaining to be made under the PFI contract at 31 March 2011 (excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payments for Services	Repayment of Liability	Interest Charges	Total Payments Due
	£000	£000	£000	£000
Payable in 2011/12	544	161	987	1,692
Payable within two to five years	1,964	1,071	3,733	6,768
Payable within six to ten years	2,217	2,451	3,793	8,461
Payable within eleven to fifteen years	2,598	3,726	2,137	8,461
Payable within sixteen to twenty years	674	1,530	193	2,397
Total	**7,997**	**8,939**	**10,843**	**27,779**

To help finance the scheme we received the following income:

	2010/11	2009/10
	£000	£000
PFI grant from the government	1,317	1,317
Contributions from the school	305	293
Contributions from the local authority	-	-
Total	**1,622**	**1,610**

Building Schools for the Future

We are taking part in the government's Building Schools for the Future Scheme, which aims to rebuild or modernise every secondary school in the country. As part of wave 1 of the scheme, we have rebuilt the secondary schools in Burnley and part of Pendle in four separate phases.

Phase 1

We signed a PFI contract with Catalyst Education (Lancashire) Phase 1 Limited on 15 December 2006 for the phase 1 project. The contract will provide two 1,050-place secondary schools, one with a co-located 90-place secondary special school, a sixth form centre, a primary school, a children's centre and a library. The contracts also involve providing ongoing services for the new buildings, including grounds maintenance, caretaking and building maintenance.

The schools and other facilities opened in September 2008. Payments made under the contract are performance related, so deductions are made if parts of the building are not available or if service performance (including caretaking and maintenance) falls below an agreed standard. The estimated capital value of the scheme is £80.8 million.

The arrangement runs from September 2008 to August 2033.

The authority makes an agreed payment each year which is increased by inflation and can be reduced if the contractor fails to meet the agreed availability and performance standards in any year, but is otherwise fixed.

Payments remaining to be made under the PFI contract at 31 March 2011 (excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payment for Services £000	Repayment of Liability £000	Interest Charges £000	Total £000
Payable in 2011/12	2,641	1,786	5,321	9,748
Payable within two to five years	12,068	7,061	19,865	38,994
Payable within six to ten years	16,533	10,674	21,534	48,741
Payable within eleven to fifteen years	18,693	13,199	16,850	48,742
Payable within sixteen to twenty years	17,877	20,163	10,702	48,742
Payable within twenty to twenty-five years	11,519	13,360	1,889	26,768
Total	**79,331**	**66,243**	**76,161**	**221,735**

To help finance the scheme we received the following income:

	2010/11	2009/10
	£000	£000
PFI grant from the government	7,639	7,639
Contributions from the school	2,414	2,644
Contributions from the local authority	79	76
Total	**10,132**	**10,359**

<u>Phase 2</u>

We signed a PFI contract for Phase 2 with Catalyst Education (Lancashire) Phase 2 Limited on 14 December 2007 to provide one 1,050 place secondary school with a co-located 90 place secondary special school. The contract also involves providing ongoing services for the new buildings, including grounds maintenance, caretaking and building maintenance.

These Phase 2 schools opened in September 2009. Payments made under the contract are performance related, so deductions are made if parts of the building are not available or if service performance (including caretaking and maintenance) falls below an agreed standard. The estimated capital value of the scheme is £33.6 million.

The arrangement runs from September 2009 to August 2034.

The Authority makes an agreed payment each year which is increase by inflation and can be reduced if the contractor fails to meet the agreed availability and performance standards in any year, but is otherwise fixed.

Payments remaining to be made under the PFI contract at 31 March 2011 (excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payment for Services £000	Repayment of liability £000	Interest Charges £000	Total £000
Payable in 2011/12	1,194	711	2,853	4,758
Payable within two to five years	5,266	2,998	10,770	19,034
Payable within six to ten years	7,616	4,290	11,887	23,793
Payable within eleven to fifteen years	7,590	6,514	9,689	23,793
Payable within sixteen to twenty years	8,669	8,576	6,548	23,793
Payable within twenty to twenty-five years	4,984	9,415	1,860	16,259
Total	**35,319**	**32,504**	**43,607**	**111,430**

To help finance the scheme we received the following income:

	2010/11	2009/10
	£000	£000
PFI grant from the government	3,663	1,985
Contributions from the school	1,217	869
Contributions from the local authority	-	-
Total	**4,880**	**2,854**

<u>Phase 2a</u>

We signed a PFI contract for Phase 2a with Catalyst Education (Lancashire) Phase 2aLimited on 14 December 2007 to provide one 1,050 place secondary school with a co-located 90 place secondary special school. The contract also involves providing ongoing services for the new buildings, including grounds maintenance, caretaking and building maintenance.

The contract is for approximately 27 years comprising two years construction and 25 years operation once the schools have opened. One of the two schools opened in April 2010 and the other in September 2010.

The Authority makes an agreed payment each year which is increased by inflation and can be reduced if the contractor fails to meet the agreed availability and performance standards in any year, but is otherwise fixed.

Payments remaining to be made under the PFI contract at 31 March 2011 (excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payment for services £000	Repayment of liability £000	Interest Charges £000	Total Payments due £000
Payable in 2011/12	1,546	1,165	4,158	6,869
Payable within two to five years	6,751	5,098	15,628	27,477
Payable within six to ten years	9,942	7,291	17,114	34,347
Payable within eleven to fifteen years	11,095	9,359	13,893	34,347
Payable within sixteen to twenty years	11,973	12,883	9,491	34,347
Payable within twenty to twenty-five years	8,236	15,946	3,296	27,478
Total	**49,543**	**51,742**	**63,580**	**164,865**

To help finance the scheme we received the following income:

	2010/11	2009/10
	£000	£000
PFI grant from the government	4,612	-
Contributions from the school	1,622	-
Contributions from the local authority	-	-
Total	**6,234**	**-**

<u>Phase 3</u>

We signed a PFI contract for Phase 3 with Catalyst Education (Lancashire) Phase 3 Limited on 4 June 2009 to provide a 750 place secondary school (incorporating a learning Support Centre) and a 40 place special school. The contract also involves providing ongoing services for the new buildings, including grounds maintenance, caretaking and building maintenance.

The contract is for approximately 27 years comprising two years construction and 25 years operation once the schools have opened. The two schools opened in September 2010.

The Authority makes an agreed payment each year which is increase by inflation and can be reduced if the contractor fails to meet the agreed availability and performance standards in any year, but is otherwise fixed.

Payments remaining to be made under the PFI contract at 31 March 2011 (excluding any estimation of inflation and availability/performance deductions) are as follows:

	Payments for Services £000	Repayment of liability £000	Interest Charges £000	Total Payments due £000
Payable in 2011/12	1,090	490	3,502	5,082
Payable within two to five years	4,626	2,305	13,398	20,329
Payable within six to ten years	6,706	3,553	15,152	25,411
Payable within eleven to fifteen years	7,598	4,876	12,937	25,411
Payable within sixteen to twenty years	8,305	7,543	9,563	25,411
Payable within twenty to twenty-five years	6,096	12,396	3,954	22,446
Total	**34,421**	**31,163**	**58,506**	**124,090**

To help finance the scheme we received the following income:

	2010/11	**2009/10**
	£000	**£000**
PFI grant from the government	1,722	-
Contributions from the school	1,131	-
Contributions from the local authority	-	-
Total	**2,853**	-

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed.

The liability outstanding to pay the liability to the contractor for capital expenditure incurred is as follows:

	2010/11	**2009/10**
	£000	**£000**
Balance outstanding at start of year	110,296	78,908
Additions during the year	84,623	33,521
Payments during the year	(4,329)	(2,133)
Balance outstanding at year end	190,590	110,296

Under all these contracts (Fleetwood Sports College and BSF Phases 1,2, 2a and 3), the authority has the rights to utilise the buildings. Each school is made available for use in the following priority order: (i) provision of education services, (ii) community use, (iii) third party use. The contractor may enter into arrangements for third party use, subject to satisfying criteria laid out in the contract, and may be entitled to charge for such use. An income sharing arrangement is in place regarding any income received for third party use.

The contractor took on the obligations to construct the schools and to maintain them in a minimum acceptable condition. At the end of the contract period, the buildings will revert to the authority for nil consideration. The significant risks that the authority is exposed to under these PFI's are changes in inflation and changes in demand for the services. There is provision within the agreements for the termination of the contracts, under certain conditions, by either the authority or by the contractor. This may be in the form of voluntary termination by the authority, termination by the contractor on authority default, or termination by the authority on contractor default. Compensation payments are payable upon termination and the calculation of these is determined in the contracts.

The assets provided under these PFI's are recognised on the authority's balance sheet. Movements in their value over the year are detailed in the analysis of the movement on the property, plant and equipment balance sheet in note 35.

Lancashire Waste Scheme

We signed a PFI contract with Global Renewables Lancashire (GRL) Limited on 2 March 2007. The Works and Services to be provided under the Contract are procured by Lancashire County Council. Blackpool Council is our partner for the project and will contribute towards the costs. The basis of the partnership is set out in a joint working agreement. The contract covers delivery of Contract Waste, treatment and diversion from landfill at the Farington Site and Thornton Site as well as the subsequent disposal of waste from those sites. The waste handled/processed is Household Waste, Commercial Waste and Green Waste but not Industrial Waste. In addition an Education Centre and offices are in operation on the Farington site which the contractor also provides and manages along with other "soft services" such as tree planting, waste minimisation initiatives and developing local markets to use the end products from processed waste.

The waste treatment facilities will be built over four years and will be tested and brought into service in phases. The contract will run for 25 years from the date the final waste treatment facility is fully operating and the total payments to GRL will be around £2.1 billion over the contract period. The Authority pays a unitary payment which consists of a fixed and a variable element, both of which are subject to inflation. This payment can be reduced if the Contractor fails to meet agreed targets. The capital costs of the PFI contract are £263 million.

The facilities started receiving waste for testing during 2010 entering a test or "ramp up" period and payments for processing waste during the testing period were made in 2010/11 and will be made during 2011/12. Full service payments for both facilities will be made from different timelines for both sites in 2011/12.

The significant risks that the Authority is exposed to during this PFI contract are in relation to diversion rates and inflation. Diversion rates for diversion from landfill were bid by GRL in their original contract tender and these can be agreed annually as necessary before performance on diversion is measured. The payments/deductions are based on the tonnage variances, landfill costs and contract transport rates and are affected by the nominated Operating Throughput Capacity.

At the end of the concession period the Authority may retender for the provision of the Services or request the Contractor to transfer all of its right, title and interest in and to the assets to the Authority.

There is provision within the project agreement for the termination of the contract under certain conditions by either the Authority or the Contractor. This may be in the form of voluntary termination by the Authority, termination by the Contractor on Authority default or termination by the Authority on Contractor default. Compensation payments are payable upon termination and the calculation of these is determined in the contract.

30. Section 137 expenditure

Section 137 of the Local Government Act 1972 (as amended) enables a local authority to make contributions to the funds of charities operating in the UK and to not for profit bodies providing public services in the UK. This expenditure is limited to £1.90 per head of the relevant population as defined by statute. The impact of this expenditure would amount to £2.267million.

The authority has not incurred any expenditure under this statute.

The authority does incur expenditure under the wellbeing powers of the Local Government Act 2000. This allows authorities to spend money on promoting or improving the economic, social or environmental wellbeing of their area.

31. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and Private Finance Initiative contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the authority that has yet to be financed. The CFR is analysed in the second part of this note.

	2010/11	2009/10
	£000	£000
Opening Capital Financing Requirement	710,712	636,813
Capital investment		
Property, Plant and Equipment	241,319	178,673
Investment Properties	-	-
Intangible Assets	719	-
Revenue Expenditure Funded from Capital Under Statute	18,290	15,405
Sources of Finance		
Capital receipts	10,379	153
Government grants and other contributions	97,982	91,832
Sums set aside from revenue:	28,480	24,645
Direct revenue contributions	2,893	3,549
Write down of PFI liability	1,609	-
Minimum Revenue Provision (MRP)/ loans fund principal		
Closing Capital Financing Requirement	596,013	710,712
Explanation of movements in year:		
Increase in underlying need to borrowing (supported by government financial assistance)	18,430	21,126
Increase in underlying need to borrowing (unsupported by government financial assistance)	27,896	21,384
Assets acquired under finance leases	-	-
Assets acquired under Private Finance Initiative contracts	80,294	31,388
Increase (decrease) in Capital Financing Requirement	**126,620**	**73,898**

Future capital spending commitments

We are committed to certain levels of capital spending in the future. This is because of contracts agreed in previous years which have not yet been completed.

Our capital spending commitments for 2011/12 onwards are £138 million, of which £108 million will be spent in 2011/12 and £30 million in 2011/12 onwards. Our legally committed capital expenditure as at 31 March 2010 is £25 million.

32. Operating Leases

Authority as Lessee:

The minimum lease payments will be payable over the following periods:

	2010/11 £'000	2009/10 £'000
Leases expiring not later than one year	212	212
Leases expiring in two-five years	355	355
Leases expiring after five years	287	499
	854	**1,066**

Authority as Lessor:

The County Council has granted various property operating leases. The rentals received in 2010/11 amounted to £12.888 million and the assets were subject to £0.132 million depreciation to 31st March 2011.

The minimum lease payments will be receivable over the following periods:

	2010/11 £'000	2009/10 £'000
Leases expiring not later than one year	1,639	1,639
Leases expiring in two-five years	4,282	4,282
Leases expiring after five years	6,967	8,602
	12,888	**14,523**

33. Finance Leases

The authority does not have any material finance leases.

Trading Operations Notes

34. Trading operations – Lancashire County Commercial Group

Our three major trading operations are:

- Operational Services;
- Catering Services; and
- Care Services.

In 2010/11 these trading operations made a total operating surplus of £6.861 million.

	Turnover	**Spending**	**(Surplus) or deficit**
	£000	**£000**	**£000**
Care Services	(23,570)	24,267	697
Catering Services	(24,707)	24,052	(655)
Operational Services	(93,399)	86,496	(6,903)
Total	**(141,676)**	**134,815**	**(6,861)**

More information on our major trading operations' services for 2010/11 is given below.

Operational Services provides:

- Highways and Environmental services – repairing and maintaining roads and bridges, road surfacing and street lighting for contracts won in competition and through the Highways Works Contract, routine maintenance for grounds and playing fields, and creating new landscaping schemes and sports facilities;
- Fleet Services – repairing and maintaining county council and Lancashire Fire and Rescue vehicles;
- Travel Care – caring and accessible bus services
- Building Cleaning services;
- School Crossing Patrol services; and
- Passenger Assistant services

Catering Services provides:

- school catering services for approximately 560 schools; and
- staff and civic catering from four outlets

Lancashire County Care Services

At the 1 April 2011 Lancashire County Care Services was providing:

- residential services from 17 homes for older people;
- rehabilitation services from 9 of these homes;
- day care from 13 day centres; and
- an assessment and reablement service providing assessment, practical and personal care to help people who have been ill or injured live independently at home for as long as possible.

The final accounts for 2010/11 show a turnover of £24.267 million.

Balance Sheet Notes

35. Property, Plant and Equipment

The fixed assets figure includes properties valued at some £537 million which are not owned by the county council. These are principally voluntary aided schools which form approximately 50% of schools in Lancashire. These schools and the use of the buildings are essential for the county council to fulfil its statutory duties for the provision of education. It is therefore considered appropriate to include these assets within the county council's Balance Sheet to fairly reflect the value of the assets used in providing the service.

With the recent economic downturn consideration was made with respect to the value of the fixed assets. After taking into account various factors it was decided that the fixed assets figure in the balance sheet represents the value of the assets held.

<u>**2010/11**</u>

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	**Total Property, Plant & Equipment**	PFI Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	**£000**	£000
Cost or valuation								
At 1 April 2010		1,720,145	45,092	472,958	-	47,283	**2,285,478**	130,466
Additions		210,461	15,180	46,104	-	9,103	**280,848**	86,232
Donations								
De-recognition – Disposals		(26,321)	-	(10)	-	-	**(26,331)**	-
De-recognition - Other		(2,284)	-	-	-	(41,867)	**(44,151)**	-
Revaluations increases/(decreases) recognised in Revaluation Reserve		119,058	-	-	-	-	**53,955**	2,912

Revaluations increases/(decreases) recognised in Surplus/Deficit on Provision of Services	(65,103)	-	-	-	-	-	-
Assets reclassified (to)/from Held for Sale	(2,266)	-	-	-	-	**(2,266)**	-
At 31 March 2010	**1,953,690**	**60,272**	**519,052**	**-**	**14,519**	**2,547,533**	**219,610**

Depreciation and Impairments

At 1 April 2010	38,563	15,275	28,070	-	-	**81,908**	(1,461)
Depreciation charge for 2010/11	20,648	5,945	11,278	-	-	**37,871**	(2,099)
Depreciation written out to the Revaluation Reserve	-	-	-	-	-	**-**	-
Depreciation written out to the Surplus/Deficit on Provision of Services	-	-	-	-	-	**-**	**-**
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-	**-**	**-**
De-recognition – Disposals							
De-recognition – Other							
Any Other Movements in Depreciation and Impairment							
At 31 March 2011	**59,211**	**21,220**	**39,348**	**-**	**-**	**119,779**	**(3,560)**

Net Book Value at 31 March 2011	**1,894,479**	**39,052**	**479,704**	**-**	**14,519**	**2,427,754**	**216,050**
Net Book Value at 31 March 2010	**1,681,582**	**29,817**	**444,888**	**-**	**47,283**	**2,203,570**	**129,005**

2009/10 Comparative Year Re-stated

	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	**Total Property, Plant & Equipment**	PFI Assets Included in Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	**£000**	£000
Cost or valuation								
At 1 April 2009		1,566,709	34,209	427,627	-	4,754	**2,033,299**	102,721
Additions		82,382	7,929	45,406	-	42,529	**178,246**	33,581
Reclassifications			2,967				**2,967**	
Donations								
De-recognition – Disposals		(2,620)	(13)	(75)	-	-	**(2,708)**	-
De-recognition - Other		(4,617)	-	-	-	-	**(4,617)**	(4,467)
Revaluations increases/(decreases) recognised in Revaluation Reserve		111,861	-	-	-	-	**111,861**	(1,369)

Revaluations increases/(decreases) recognised in Surplus/Deficit on Provision of Services	(30,584)	-	-	-	-	**(30,584)**	-
Assets reclassified (to)/from Held for Sale	(2,986)	-	-	-	-	**(2,986)**	-
At 31 March 2010	**1,720,145**	**45,092**	**472,958**	**-**	**47,283**	**2,285,478**	**130,466**
Depreciation and Impairments							
At 1 April 2009	20,684	9,646	17,808	-	-	**48,138**	(1,461)
Depreciation charge for 2009/10	17,879	5,629	10,262	-	-	**33,770**	
Depreciation written out to the Revaluation Reserve	-	-	-	-	-	**-**	-
Depreciation written out to the Surplus/Deficit on Provision of Services	-	-	-	-	-	-	-
Impairment losses/(reversals) recognised in the Revaluation Reserve	-	-	-	-	-	-	-
De-recognition - Disposals							
De-recognition - Other	-	-	-	-	-	-	-
Any Other Movements in Depreciation and Impairment	-	-	-	-	-	-	-
At 31 March 2010	**38,563**	**15,275**	**28,070**			**81,908**	**(1,461)**

Net Book Value at 31 March 2010	**1,681,582**	**29,817**	**444,888**	**-**	**47,283**	**2,203,570**	**129,005**
Net Book Value at 31 March 2009	**1,546,026**	**24,563**	**409,820**	**-**	**4,754**	**1,985,163**	**101,260**

Effects of Changes in Estimates

In 2010/11 the authority made no material changes to its accounting estimates for Property, Plant and Equipment.

Depreciation

The useful lives for land and buildings used for depreciation are assessed by individual property by the valuer in groups of 10 year up to over 50 years, namely:

Life grouping	life used for depreciation
0- Up to 10 years	specific asset life used
10-20 years	10
21-30 years	20
30-40 years	30
40-50 years	40
Over 50 years	50

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Land is not depreciated
- Vehicles, Plant, Furniture and Equipment 10 years
- Infrastructure generally 50 years with exceptions as based on advice from surveyors

Summary of our main assets

Directorate for Children and Young People	**Number**
Short Stay Schools	12
Nursery schools	24
Primary schools (including 250 aided schools)	483
Secondary schools (including 27 aided schools)	80
Special schools	31
Children's Centres	58
Youth Centres/Establishments	44
Outdoor education centres	4
Children's homes	9
Children's residential units	6
Short-term residential units for children with disabilities	8
Children and parenting support centres	11

Land and buildings for an aided school are normally financed by a voluntary organisation (usually a church authority). But we may have funded other capital spending at the school.

Highways and transport services

Principal county roads (kilometres)	770
Other county roads (kilometres)	6,170
Principal motorways, including slip-roads maintained by the councils (kilometres)	19
Number of Structures (mainly bridges)	1,768
Retaining walls (kilometres)	324
Highways depots/stores	33
Transport information centres	3
Bus stations	2
Bus/rail interchanges	2
Park and ride sites	3

Adult and Community Services Directorate

Residential homes:	
– for older people	17
– for people with learning disabilities	9
– for people with mental health needs	4
Day centres:	
– for people with learning disabilities	12
– other	18
Adult Education Colleges	2

Libraries, museums, arts and recreation services

Libraries	70
Museums and Art Galleries	7
Record office	1
Country parks	2
Picnic sites	16
Nature reserves	3
Woodlands	42

Other services

Smallholdings (hectares)	104
County analyst's laboratory	1
County Hall and other administrative buildings	11
Household waste recycling centres owned sites	23

Fixed Asset Valuation

The property valuations are undertaken by appropriately qualified staff within the property group of the county council.

All valuations have been undertaken in accordance with the practice statements, guidance notes and valuation information papers of the Royal Institution of Chartered Surveyors' (RICS) Valuation Standards (The Red Book) and in accordance with CIPFA regulations and current Local Authority Statement of Recommended Practice (SORP).

Properties regarded by the authority as operational are to be valued on the basis of existing use value or, where this cannot be assessed because there is no market for the subject asset, the depreciated replacement cost.

Properties regarded by the authority as non operational are to be valued on the basis of market value.

No property valuation is to be more than five years old and at least 20% of properties are revalued each year. In 2009/10 some 437 properties were revalued which equates to approximately 25% of all the properties held. The valuation attached to these properties was £506.7 million.

The following statement shows the progress of the council's rolling programme for the revaluation of fixed assets. Valuations are undertaken internally by Lancashire County Council's Property Group. All valuations have been undertaken by qualified Chartered Surveyors who are members of the Royal Institution of Chartered Surveyors. The basis for valuation is set out in the statement of accounting policies.

	Land and Buildings £000s	Assets Under Construction £000s
Valued at historical cost	73,749	14,519
Valued at current value in:		
2010/11	742,427	
2009/10	330,772	
2008/09	410,846	
2007/08	389,322	
2006/07	6,574	
Total	**1,953,690**	**14,519**

36. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	31st March 2011 £000	31st March 2010 £000
Rental income from Investment Property	(89)	-
Direct operating expenses arising from investment		
Net (Gain)/loss	**(89)**	-

There are no restrictions on the authority's ability to realise the value inherent in its investment property or on the authority's right to the remittance of income and the proceeds of disposal. The authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance and enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

	31st March 2011 £000	31st March 2010 £000
Balance at start of year:	4,942	3,960
Additions:		
Purchases		
Construction		
Subsequent Expenditure		
Disposals		
Net gains/ losses from fair value adjustments	142	982
Transfers:		
To/From inventories		
To/From Property Plant and Equipment	381	
Other Charges	(14)	
Balance at end of year:	**5,451**	**4,942**

37. Intangible Assets

The authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of property, plant and equipment. The intangible assets include both purchased licenses and internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the authority. The useful lives assigned to the major software suites are:

	Internally Generated £000	Other £000
3 years		
5 years		
7 years		138
10 years		1,475

The movement on Intangible Asset balances during the year is as follows:

	2010/11			2009/10		
	Internally Generated Assets	Other Assets	**Total**	Internally Generated Assets	Other Assets	**Total**
	£000	£000	£000	£000	£000	£000
Balance at 1st April 2010:		237	237		336	336
Gross Carrying Amount						
Accumulated Amortisation	-	-	-	-	-	-
Net Carrying Amount at 1st April	-	237	237		336	336
Additions:						
Internal Development	-	-	-	-	-	-
Purchases	-	-	-	-	-	-
Acquired through Business Combinations	-	1,475	1,475	-	-	-
Assets reclassified as Held for Sale	-	-	-	-	-	-
Other Disposals	-	-	-	-	-	-
Revaluations Increases/Decreases	-	-	-	-	-	-
Impairment Losses recognised or reversed directly in the RR	-	-	-	-	-	-
Impairment Losses recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-	-	-
Reversals of part impairment losses written back to the Surplus/Deficit on the Provision of Services	-	-	-	-	-	-
Amortisation for the period	-	(99)	(99)	-	(99)	(99)

Other changes	-	-	-	-	-	-
Net Carrying Amount at end of year	-	1,613	1,613	-	237	237
Comprising:						
Gross carrying amounts	-	2,172	2,172	-	697	697
Accumulated amortisation	-	(559)	(559)	-	(460)	(460)

<u>Individual Items of Material Capitalised Software</u>

	Carrying Amount		
	31st March 2011 £000	31st March 2010 £000	Remaining Amortisation Period in years
Pension Administration Software	755	-	10
Schools Network Infrastructure	720	-	10

38. Financial instruments

The following categories of financial instruments are carried in the balance sheet. The instruments have been valued in accordance with International Financial Reporting Standards (IFRS) using the accounting policies explained within our accounting policies section.

	Long Term			Short Term		
	31st March 2011	31st March 2010	1st April 2009	31st March 2011	31st March 2010	1st April 2009
	£000	£000	£000	£000	£000	£000
Investments						
Loans and Receivables						
Cash Deposits	249,405	55,294	25,202	40,686	146,944	157,378
Impaired Investments	-	-	-	6,373	5,095	6,501
Other Loans	5,888	5,836	5,618	-	-	-
Cash and Cash Equivalents	-	-	-	36,903	214,212	95,365

Total Loans and Receivables	**255,293**	**61,130**	**30,820**	**83,962**	**366,251**	**259,244**
Available for Sale Financial Assets	-	-	-	-	-	-
Bonds	20,795	-	-	122,312	-	-
Sita Shares	-	-	-		-	2,991
Total Available for Sale Financial Assets	**20,795**	**-**	**-**	**122,312**	**-**	**2,991**
Total Investments	**276,088**	**61,131**	**30,820**	**206,274**	**366,251**	**262,235**
Debtors						
Financial assets carried at contract amounts	47,900	50,907	54,797	94,990	85,815	68,467
Total Debtors	**47,900**	**50,907**	**54,797**	**94,900**	**85,815**	**68,467**
Borrowing						
Financial liabilities at amortised cost						
PWLB Loans	390,370	528,128	536,463	13,596	9,166	15,615
LOBO's	50,442					
Other Market Loans	-	10,022	-	337,699	98,149	-
Local Bonds	22	22	22	-	-	-
Total Borrowings	**440,834**	**538,172**	**536,485**	**351,295**	**107,315**	**15,615**
Other Long Term Liabilities						
Private Finance Initiative	186,278	107,685	77,138	4,313	2,611	1,770
Total Other Long Term Liabilities	**186,278**	**107,685**	**77,138**	**4,313**	**2,611**	**1,770**

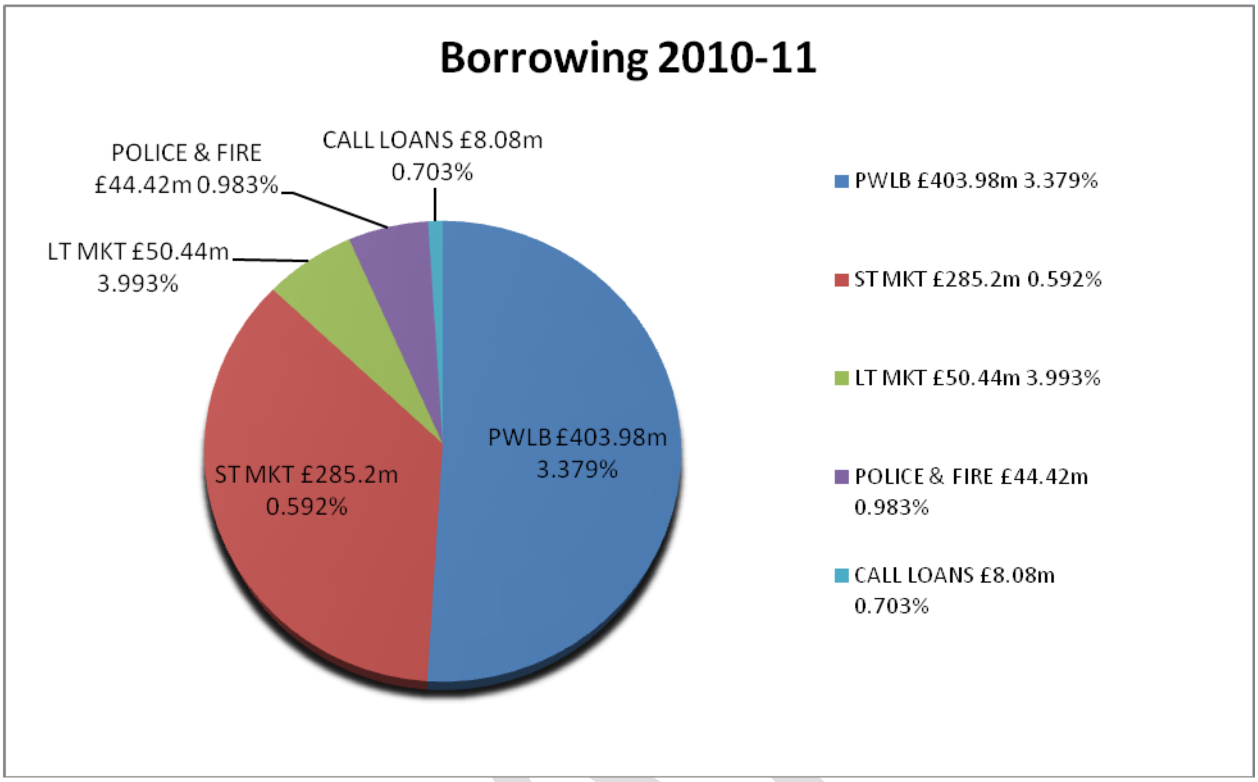
Creditors	-	-	-	151,243	174,681	145,974
Financial liabilities carried at contract amounts						
Total Creditors	**-**	**-**	**-**	**151,243**	**174,681**	**145,974**

There have been some significant changes to the structure of the County Council's borrowing during the 2010-11 financial year. The economic background has been similar to 2009-10, characterised by very low short term interest rates, and market borrowing rates consistently lower than those offered by the Public Works Loan Board (PWLB). During 2009-10 the County Council undertook a rolling programme of short term market borrowing to finance the current capital financing requirement as an alternative strategy to the usual default position of financing through long term PWLB loans. Although this does increase market and liquidity risk (see note 42), the current spread between the rates is such that significant short term financial benefits accrue to the authority as a result of the policy. Taking the view that short term rates would remain historically low for some time to come, during the 2010-11 financial year this policy was extended and the authority has repaid a total of £287.350 million fixed rate PWLB loans with an average maturity of 22.77 years and an average interest rate of 4.71%. £165.750 million of this was replaced with 10 year variable rate PWLB loans for which the average rate to 31st March 2011 was 0.69%. A further £50 million was replaced with a long term Lender Option Borrower Option (LOBO) market loan, and the balance with additional short term market borrowing.

A LOBO loan is a floating rate instrument which permits the lender to nominate a revised rate at periodic dates and gives the borrower the option to accept the new rate of repayment for the loan. The LOBO loan has an initial 2 year fixed period with an interest rate of 1.65%. After the two years the rate will be calculated as 7.52% less the 10 year sterling swap rate at the time. When the loan was taken, the 10 year sterling swap rate was 3.29%, meaning the loan rate after two years would be 4.23% but if interest rates rise in the intervening period the actual rate the County Council will pay will be lower. The options built into the loan mean that after 5 years the lender has the option to amend the interest rate for the next five year period. The borrower can accept the new rate or, if the rate is unacceptable, has the option to repay the loan in full without any penalty and end the contract. These options can be exercised every five years and overall the loan has a maturity of 50 years.

The other change to borrowing has been the recording of balances which the County Council holds on behalf of the Police and Fire Authorities. In previous years these have netted off the County's cash balance but with the adoption of International Financial Reporting Standards in 2010/11 these balances are now included within the County Council's borrowing total.

Overall the average rate of interest paid in 2010/11 on the debt administered by the County Council was 2.69% per annum compared with an average rate of 4.37% in 2009/10. The following chart shows the breakdown of LCC Debt and the average interest rate payable on the different type of instruments.



Regarding the investment of reserves and balances, following the collapse of the Icelandic banks in 2008-09 the County Council has been working towards the implementation of a credit de-risking strategy. The 2010/11 financial year is the first full year of operation using information from the credit default swap market in addition to credit ratings to assess counterparty reliability. In addition, changes to the portfolio have increased our exposure to sovereign credit at the expense of bank risk, including the purchase of government guaranteed bonds, which have also improved the portfolio yield at a time of very low short term interest rates.

The structure of the portfolio in terms of maturities has been lengthened to provide a better match between investment maturities at the point at which the Council will require access to invested cash.

Like most other councils, Lancashire has a benchmark for the average rate of interest earned on its invested cash balances. The benchmark rate is the average commercial market rate for money deposited on 7 days' notice. During 2010/11, on average, that rate was 0.431%, with Lancashire's average rate being 2.453% over the same period, reflecting the longer term nature of the portfolio.

At the 31st March 2011 the interest rate on the portfolio was 3.43%. The table below provides an analysis.

Maturity Range	Amount £million	Average Rate %
Call, MMF & Under 1yr	83.96	1.58
1-2 Years	67.65	3.07
2-3 Years	106.31	2.79
3-5 Years	75.45	4.62
5 Years +	5.89	4.54
Local Authority Bonds	20.79	4.71
Bonds	60.72	3.71
Index Linked Bonds	61.59	5.35
Totals	**482.36**	**3.43**

39. Income, Expense, Gains and Losses on Financial Instruments

The gains and losses during 2010/11 on financial instruments, which have been recognised in the Comprehensive Income and Expenditure Account, are as shown in the following table:

	2010/11				**2009/10**			
	Financial Liabilities Measure at Amortised Cost	Financial Assets: Loans & Receivables	Financial Assets: Available for Sale	**Total**	Financial Liabilities Measure at Amortised Cost	Financial Assets: Loans & Receivables	Financial Assets: Available for Sale	**Total**
	£000	£000	£000	£000	£000	£000	£000	£000
Interest Expense	18,608			18,608	20,682		-	20,682
Losses on De-recognition	30,115			30,115	568		-	568
Reductions in Fair Value	-			-	-		-	-
Impairment Losses	977			977	1,350		-	1,350
Fee Expense	299			299	103		-	103
Total Expense in Surplus/Deficit on the	**49,999**			**49,999**	**22,703**		**-**	**22,703**

Provision of Services								
Interest Income		(11,881)	(5,758)	(17,639)		(8,096)	-	(8,096)
Interest income accrued on impaired financial assets		(105)		(105)		(215)	-	(215)
Increases in fair value							-	
Gains on de-recognition	(452)			(452)			-	
Fee income							-	
Total income in (Surplus)/Deficit on the Provision of Services	**(452)**	**(11,986)**	**(5,758)**	**(18,196)**	**-**	**(8,311)**	**-**	**(8,311)**
Gains on revaluation	-	-	-	-	-	-	-	
Losses on revaluation	-	-	-	-	-	-	-	-
Amounts recycled to the Surplus/ Deficit on the Provision of Services after impairment	-	-	-	-	-	-	-	-
(Surplus)/Deficit arising on revaluation of financial assets in Other Comprehensive Income & Expenditure			7,159	7,159				
Net (Gain)/Loss for the Year	**49,547**	**(11,986)**	**1,401**	**38,962**	**22,703**	**(8,311)**	**-**	**14,392**

The £30.115 million losses on de-recognition includes £29.316 million of premiums incurred with the expectation of making savings on debt interest of £9.75 million per annum at current variable interest rates. The premium is being spread over 42 years, and there is therefore an offsetting credit of £27.101 million in the Movement in Reserves Statement. See the disclosure note on 'adjustments between accounting basis and funding basis' within the Financial Instruments Adjustment Account in note 9.

40. Treatment of Icelandic Deposits in 2010/11 Accounts

Lancashire County Council had £6.436 million on deposit with the Icelandic Bank Landsbanki Is when it collapsed in October 2008. At the time the winding up committee decided that wholesale depositors, such as local authorities, were preferential creditors, meaning that they would be amongst the first claims to be paid distributions from the winding up of the company. This decision makes a great deal of difference to the amount of the claim against the assets of the bank which the authority can expect to receive. Due to the sums involved the decision was challenged through the Icelandic courts by vulture funds and other non-preferential creditors.

The case was heard on 14-18 February in Reykjavik and the decision passed down by the judge on 1st April. The Icelandic District Court found in favour of local authorities and ruled that deposits placed by UK wholesale depositors have priority status in the winding up of the Icelandic banks. Subsequently an appeal to the Supreme Court has been made and a

final decision is expected in September 2011. No indication has been given as yet to the timing of any distributions.

Based on the current statement of assets and liabilities of the bank the most up to date indications are that authority will recover 94.85% of the value of the claim (CIPFA May 2011) although this figure is wholly dependent on realisations made from the assets of the bank and may change.

In terms of accounting treatment, since the collapse in 2008-09 the Icelandic deposit has been treated as an impaired asset, with the value of the asset written down to reflect the potential loss and this has been charged to the county fund. In 2008-09 and 2009-10 the authority took advantage of a special capital financing regulation, which enabled the authority to defer the impact on the county fund by transferring the impairment to the financial instruments adjustment account. It has always been the case that the regulation would last for two years and that the impairment transfer to the financial instruments adjustment account would be reversed in 2010/11.

In accordance with legislation and CIPFA accounting guidance, all transactions relating to the Landsbanki investment transferred to the financial instruments adjustment account in previous years have now been reversed, and an impairment charge of £1.285 million made to the 2010-11 Accounts. In addition and also in accordance with recommended accounting practice £0.308 million of notional interest has been credited to the investment interest account.

41. Fair Value of Financial Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments. The available for sale assets are already carried in the balance sheet at their fair value. The Fair values are shown in the table below.

	31st March 2011		31st March 2010		1st April 2009	
	Amortised Cost	Fair Value	Amortised Cost	Fair Value	Amortised Cost	Fair Value
	£000	£000	£000	£000	£000	£000
Loans from the Public Works Loan Board	403,966	423,890	545,629	539,511	552,100	584,136
Market Debt	388,141	383,978	108,171	108,108	-	-
Long/Short Term Investments	482,362	480,420	427,381	429,048	293,075	293,497

The fair value of our PWLB loans is the amount that would have been payable had those loans been repaid to the PWLB on the balance sheet date rather than on their contracted future maturity date. This valuation takes into account the premiums that would be payable or discounts receivable on early repayment of loans to the PWLB. These premiums and discounts depend on the rate and period of each individual loan and on the rates for loans with similar periods to maturity prevailing at the balance sheet date. Where the duration of a financial instrument is less than one year, its fair value may be deemed to be the same as its nominal value.

The fair value of our market debt is lower than the carrying amount, reflecting the fact that the authority's portfolio of market loans is generally at rates lower than the prevailing rates at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31st March 2011) arising from a commitment to pay interest to lenders below current market rates. The fair value of our investments is slightly lower because the portfolio includes a number of fixed rate loans where the interest rate receivable is slightly lower than the rates available for similar investments at the balance sheet date.

42. Nature and Extent of Risks Arising From Financial Instruments

The authority's activities expose it to a variety of financial risks:

- Credit risk – the possibility that other parties might fail to pay amounts due to the authority
- Liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments
- Market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock movements.

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the County Council in the annual treasury management strategy.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the County Council's customers.

With regard to financial institutions the risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with an institution unless it meets identified minimum credit criteria, as laid down by the Fitch and Moody's credit rating services. The strategy also imposes a maximum sum and duration which the County Council can be invested in an institution depending upon the quality of credit rating. However, in the past credit ratings have been proved to be fallible, and so in addition the treasury team constantly monitor other market information such as credit default swap spreads and equity prices.

A main principle of the 2010-11 credit risk strategy was to invest mainly in UK 'nationalised' banks and to build a bond portfolio consisting exclusively of supra-national or Government guaranteed bonds, and this has resulted in a significant de -risking of the County Council's investment portfolio.

The table below summarises the County Council's investments at 31st March 2011 (values exclude impairments and accrued interest), in terms of credit ratings. The historic default rate for the individual investment category is applied to each group to give an overall measure of the value at risk. The chance of a default is currently calculated as £0.86 million in £475 million or 0.18% which is considered to be very low, especially considering the current turbulent financial environment.

Credit Risk	< 1 mo	< 1 y	< 2 y	< 5 y	< 10 y	> 10 y	**TOTAL**
Government entities (AAA)	-	-	11	2	44	98	**155**
Barclays Bank (AA-)	-	-	-	50	-	-	**50**
Lloyds Banking Group (A+)	-	-	-	80	-	-	**80**
Royal Bank of Scotland Group (A+)	8	-	25	75	-	-	**108**
Santander Group (AA-)	32	40	10	-	-	-	**82**
Total Investments £m	**40**	**40**	**46**	**207**	**44**	**98**	**475**
Historic default rate (AA-, %)		0.04	0.11	0.23			
Historic default rate (A+, %)		0.07	0.12	0.44			
Exposure to default £m	**-**	**0.02**	**0.04**	**0.80**	**-**	**-**	**0.86**

In the context of credit risk, trade debtors are treated as financial instruments. Trade debtors represent money owed to the council by individuals who use our services and other organisations to whom we have provided goods or services.

The following analysis summarises the authority's potential maximum exposure to credit risk, based on experience of default and therefore potential uncollectability over the last five financial years.

	Total Trade Debtors at 31 March 2011	Historical experience of default (i.e. 5 yr average % of debt older than 30 days)	Historical experience of debt that could become uncollectible (i.e. over 180 days old)	Estimated maximum exposure to default and uncollectability based on historical average
	£000 A	% B	% C	£000 (A X C)
The position at 31 March 2011	34,762	38.5	14.8	5,145
The position at 31 March 2010	33,634	33.7%	9.8%	3,947

The age profile of debt which is past the due for payment date (i.e. older than 30 days) can be analysed as follows:

31 March	**2011**	**2010**
	£000	**£000**
Less than 3 months	4,290	6,118
Three to six months	2,197	1,690
Six months to one year	2,454	3,509
More than one year	5,516	3,911
Total	**14,457**	**15,228**

In addition to the above trade debtors, the council is also required to account for its share of the council tax owed to the 12 district council collection funds across Lancashire. As at 31st March 2011 this amounted to £30.4 million (£27.9 million as at 31st March 2010). This debt relates to several tax years and the treasurers of the district councils have based on their experience of collecting this debt, taken a view that £13.3 million (43.82%) of this will not be collected (compared with £12.3 million (44.2%) in 2009/10). These amounts need to be seen in the context of the total amount of council tax raised by the county council of £423.69 million and the amount owed at the end of the year represents 7.2% of the tax raised in the year.

The county council maintains a provision for bad and doubtful debts (see note 51) which at 31 March 2011 stood at some £20.5 million, (including £13.3 million for the council's share of council tax owed to the 12 district councils, as explained above). This is broadly based on the total of debt that is more than six months old. However, a significant proportion of such debt is considered collectable or is in the process of being paid and so as well as allocating predicted collection percentages to the various stages of debt recovery, designated Income Champions in each directorate also performed a more detailed assessment of the likely collection of such debts, resulting in the county councils proportion of the provision totalling £7.2 million (compared to £8.5 million for 2009/10).

As such, despite the provision increasing for the 12 District Councils the reduction in the County Council's proportion means an overall reduction in the provision.

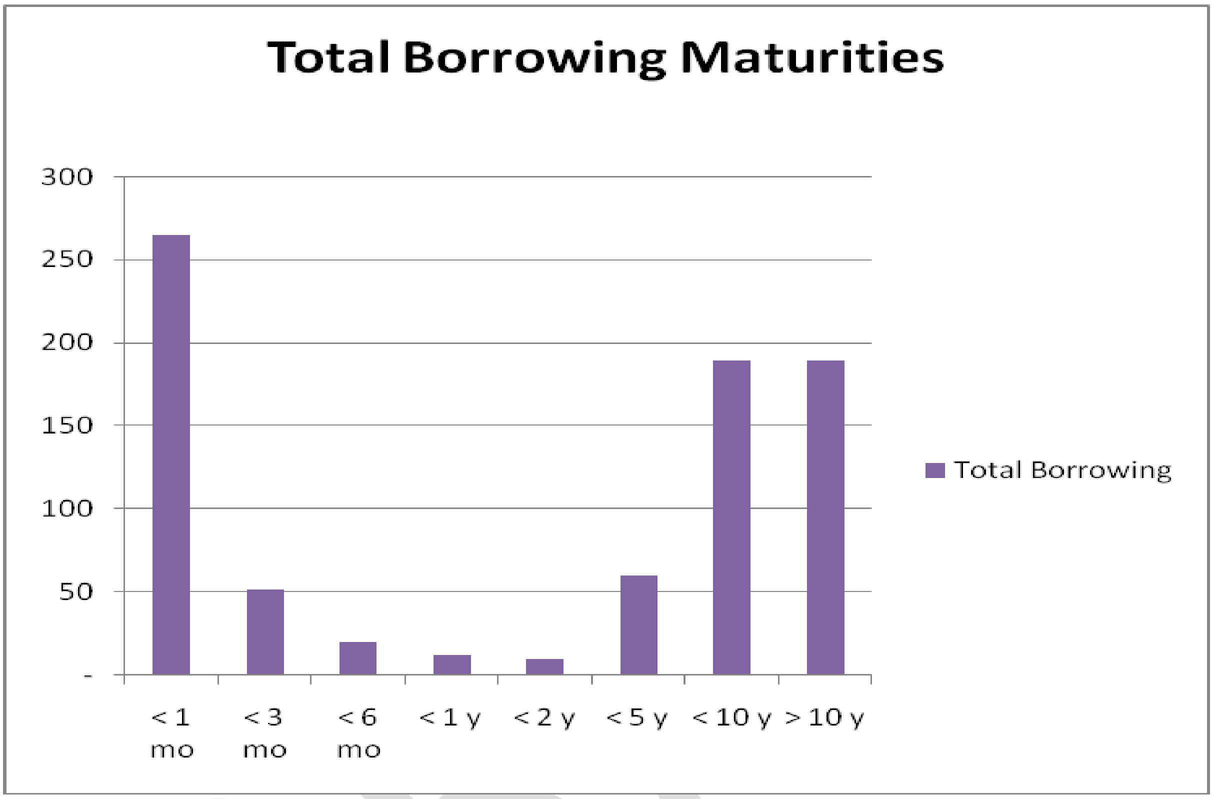
Liquidity Risk

Liquidity risk is the danger that, at any time, we will have insufficient funds in our bank account to make the payments necessary to meet our financial obligations.

The County Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the authority has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that the County Council will be unable to raise finance to meet its commitments under financial instruments. Instead the risk is that the authority will be bound to replenish a significant proportion of its borrowing at a time of unfavourable interest rates.

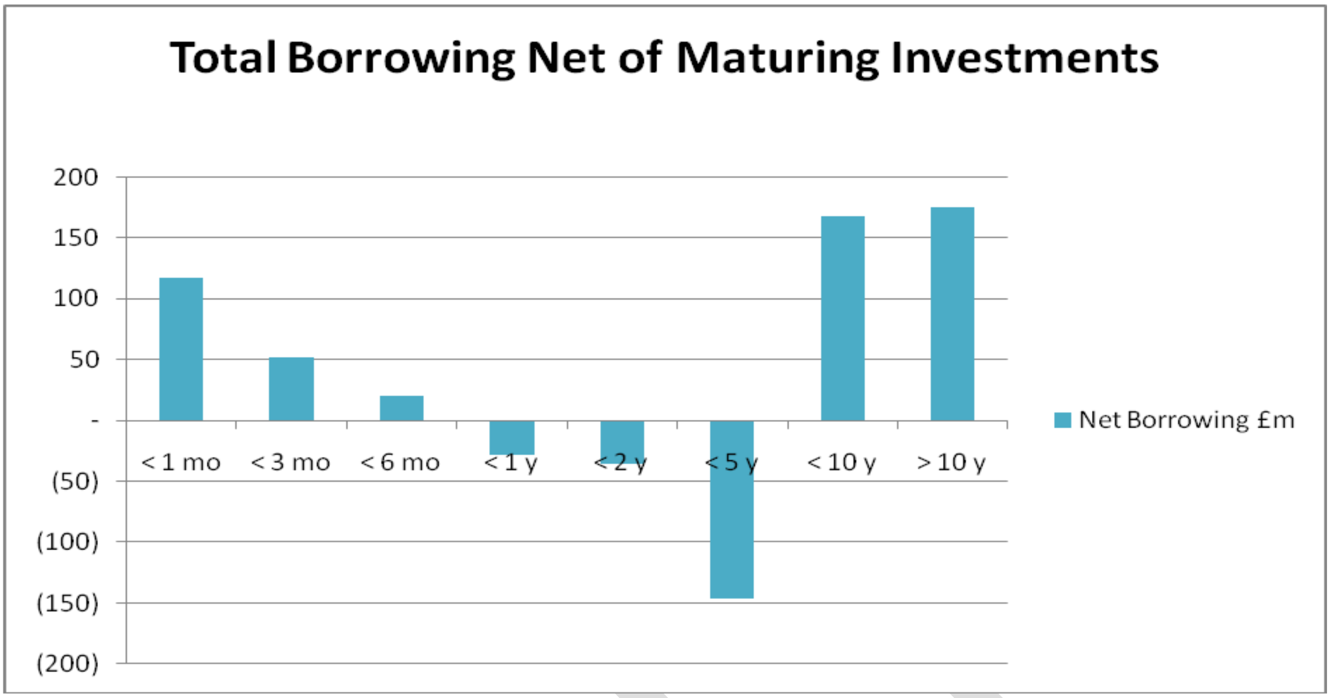
Previous treasury management strategies have centred on long term fixed rate PWLB borrowing alongside a short term investment policy. This maturity mis-match became very expensive when short term rates fell to their current very low levels. The debt restructures undertaken in 2010-11 have reduced the amount of interest we pay on the debt but have also significantly altered the profile of the authority's outstanding debt.

The chart below shows the maturity profile of the County Council's debt at 31 March 2011.



It can be seen that there is a large level of short term borrowing which needs to be constantly refinanced as part of the strategy to benefit from low short term rates, and it is this which gives rise to the interest rate risk, nevertheless, the risk is partly mitigated by maturing short term investments.

The chart below shows the net refinancing risk, that is borrowing less maturing investments



At some point the short term borrowing will be switched back again to long term debt, but for the immediate future this risk is carefully maintained.

Market Risk

The market risk to which we are exposed in our financial instruments arises mainly from interest rate movements in financial markets. The different types of financial instruments that we hold are affected in different ways by changes in market interest rates.

Movement in interest rates have a complex impact on the County Council. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise.
- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- Investments at variable rates - the interest income credited to the Surplus or Deficit on the Provision of Services will rise.
- Investments at fixed rates – the fair value of the investments will fall.

We hold fixed rate financial liabilities, variable rate financial liabilities and fixed rate financial assets and variable rate financial assets. We also hold index linked investments the fair value of which rises as inflation rises, and a Lender Option Borrower Option (LOBO) loan for which the interest rate payable by the County Council falls as interest rates rise. All of these instruments are part of a strategy to take advantage of current market conditions whilst managing interest rate risk.

There is a key difference between fixed and variable rate instruments in the way they are affected by interest rate changes. For fixed rate instruments the effect is purely on the fair values which are disclosed in the notes to our accounts whereas for variable rate instruments there is an effect on interest payable or receivable in the Comprehensive

Income and Expenditure Statement and also on the accrued interest included in the amortised cost on the Balance Sheet.

The treasury management team is constantly refining the active strategy for assessing interest rate exposure and the results feed into the annual budget cycle allowing any adverse changes to be accommodated.

The table below attempts to quantify the interest rate risk looking back at the 31 March 2011 position.

Market Risk

The effect if interest rates were 1% higher with all other variables held constant:

	£'000
Increase in interest payable on variable rate borrowings	4,532
Increase in interest receivable on variable rate investments	(132)
Impact on surplus or deficit on the provision of services	**4,400**
Decrease in fair value of fixed rate available for sale investment assets	(21,825)
Impact on other Comprehensive Income & Expenditure	(17,425)
Total Impact on other Comprehensive Income & Expenditure	**(4,400)**
Decrease in fair value of fixed rate loans and receivables investments (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.)	(5,951)
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.)	(27,324)

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

The table illustrates the sensitivity inherent in the current portfolio to an interest rate rise. This is the consequence of the current short term borrowing policy which has provided the in year reduction in debt interest costs, and which is being carefully managed having regard to the potential for interest rates to rise. This risk management process has begun with the inverse LOBO loan outlined above. Regarding the investment portfolio it is anticipated that, in the current environment, any interest rate rises would follow a prolonged period of rising

inflation, and therefore the current holding of inflation linked AAA rated bonds would provide some protection against the operating cost inflation risk.

Foreign Exchange Risk

The Authority has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.

43. Euro account

In addition to the amounts shown on the balance sheet, we are responsible for a small cash balance in euros. This is held in a separate bank account on behalf of overseas partner organisations. On 31 March 2011 the balance in this account was €233.13 (£205.93).

44. Construction Contracts

Highways Model 3 Section 278 Agreements

At 31st March 2011 the Authority had 72 construction contracts in progress: these were all Model 3 - Section 278 agreements in which work is carried out on the existing adopted highway for the benefit of a third party usually 100% funded by the third party (e.g. new supermarket). The value of the work completed at 31st March 2011 has been established by measuring the costs that have been incurred to date. Contract costs have been recognised as an expense when incurred and revenue has been recognised only to the extent of the contract costs incurred and that it is probable the revenue will be recoverable. In both cases, any expected contract losses have been recognised immediately. The amount due in relation to these construction contracts as at 31st March 2011 are as follows:

	Highways Model 3 – Section 278 Agreements
	£000
Costs incurred to date:	38,414
Revenue recognised:	
Before April 2010	32,973
During 2010/11	5,641
Profit (Loss)	(200)
Advances received	(6,346)
Work to be completed	6,346
Gross Amount Due	Nil

45. Inventories

	Consumable Stores			Maintenance Materials			TOTAL		
	1st April 2009	31st March 2010	31st March 2011	1st April 2009	31st March 2010	31st March 2011	1st April 2009	31st March 2010	31st March 2011
Balance at start of year	2,914	3,094	2,927	304	189	200	3,218	3,283	3,126
Purchases	15,850	16,414	17,280		11	537	15,850	16,425	17,817
Recognised as expense in year	(15,670)	(16,569)	(17,224)	(115)	-	-	(15,785)	(16,569)	(17,224)
Written off balances	-	(12)	(154)	-	-	-	-	(12)	(154)
Reversals of write offs in previous years	-	-	-	-	-	-	-	-	-
Balance at year end	**3,094**	**2,927**	**2,829**	**189**	**200**	**737**	**3,283**	**3,127**	**3,565**

46. Debtors

	2010/11			2009/10			1st April 2009		
	Debtor Amount	Deduct bad debt provision impairment	Debtor net amount after deduction for bad debt provision impairment	Debtor Amount	Deduct bad debt provision impairment	Debtor net amount after deduction for bad debt provision impairment	Debtor Amount	Deduct bad debt provision impairmen t	Debtor net amount after deduction for bad debt provision impairment
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Capital Debtors	9,285	(3)	9,282	3,786	-	3,786	2,080	-	2,080
Trade Debtors	10,247	(6,571)	3,676	9,322	(9,022)	300	9,544	(5,324)	4,220
Capital Grants and Contributions	-	-	-	-	-	-	-	-	-
Government Grants	10,622	-	10,622	1,149	-	1,149	819	-	819
Regenerate Pennine Lancashire	-	-	-	10,943	-	10,943	10,943	-	10,943

VAT	6,496	-	6,496	8,087	-	8,087	7,032	-	7,032
Loans to employees to buy cars	(152)	-	(152)	34	-	34	168	-	168
Central Government Bodies	745	(8)	738	7,116	-	7,116	1,546	-	1,546
NHS Bodies	531	(271)	259	1,742	-	1,742	1,272	-	1,272
Other local authorities	11,727	(165)	11,562	8,534	-	8,534	4,738	-	4,738
Other public corporations	464	(12)	452	-	-	-	81	-	81
Council tax owed by billing authorities	30,452	(13,264)	17,188	27,970	(12,355)	15,614	27,627	(11,907)	15,720
Other debtors	35,014	(147)	34,867	28,511	-	28,511	35,568	-	35,568
Total	***115,431***	**(20,441)**	**94,990**	**107,194**	**(21,377)**	**85,816**	**101,418**	**(17,231)**	**84,187**

The provision for bad and doubtful debts covers debts that we do not expect to recover. It is based on the age of the debts outstanding.

47. Creditors

	31 March 2011 £000	31 March 2010 £000	1st April 2009 £000
Suppliers of goods and services	44,027	42,800	33,783
Government grants	2,368	2,775	3,765
Capital creditors		2,063	3,582
PAYE creditors	25,394	24,778	25,027
Regenerate Pennine Lancashire grant (formerly Elevate)		18,219	18,220
Other	52,871	39,172	43,156
Central Government Bodies	109	348	5,620
Other local authorities	5,703	21,779	7,254
NHS Bodies	4,736	5,874	5,558
Other Public Corporations	16	4	9
Owed to billing authorities	9,994	10,464	11,401
Lancashire County Council's share of billing authority creditor deficits	6,025	6,405	6,361
Total	**151,243**	**174,681**	**163,736**

48. Cash and Cash Equivalents

The balance of cash and cash equivalents is made up of the following elements:

	31 March 2011 £000	31 March 2010 £000	1st April 2009 £000
Cash held by authority	15,255	14,732	13,563
Bank current accounts	19,198	208,788	24,310
Short term deposits under 3 months	36,903	21,000	85,800
Total Cash and Cash Equivalents	**71,356**	**244,520**	**123,673**

49. Payments in advance

Payments in advance are cash payments which we made on or before 31 March which are charged to the income and expenditure account in the following financial year.

	31 March 2011 £000	31 March 2010 £000	1st April 2009 £000
Advance lease rental payment	34	51	168
Other payments in advance	3,659	3,742	7,073
Total	**3,693**	**3,793**	**7,241**

50. Receipts in advance

Receipts in advance are cash amounts which we received on or before 31 March which relate to the following financial year. The biggest amount is grant income to schools, which will be spent before the end of the academic year.

	31 March 2011 £000	31 March 2010 £000	1st April 2009 £000
Children and Young People Directorate	1,522	5,742	6,439
Environment Directorate	12,216	17,219	7,162
Adults and Community Services	15,380	13,177	9,507
Other	2,396	4,792	(397)
Total	**31,514**	**40,930**	**22,712**

51. Provisions

We keep some funds set aside to provide for specific expenses, the exact cost or timing of which is still uncertain. These funds are known as 'provisions'. The changes to these funds are summarised below.

	Balance on 1 April 2010 £000	Additional Provision made in 2010/11 £000	Spending met from the provision 2010/11 £000	Unused Amounts Reversed 2010/11 £000	Balance at 31 March 2011 £000
Insurance provision	26,187	10,207	(10,867)	(5,276)	20,251
Teachers' pension provision	252	11	-	-	263
Building Schools for the Future	370	646	-	-	1,016
Provision for planning appeal costs	129	-	(129)	-	-
Turton Capital Scheme	100	-	(93)	(7)	-
Gawthorpe Museum Capital Scheme	500	-	-	-	500
Sure Start Local Programmes	95	-	(95)	-	-
Swimming repairs and maintenance	120	12	(35)	-	97
Youth Service Redesign	81			(81)	-
Employment tribunal	10	212	-	-	222
Section 117 Client Refunds	300	500	-	-	800
Survey costs					
Redundancy provision	6,244	22,824	(18,628)	-	10,440
Equal Pay Review Provision	24,442	-	(16,010)	-	8,432
School library service	88	-	(88)		-
Aid and Adaptations	441	87	(338)	-	190

Legal Settlements and costs	-	100	-	-	100
Childrens Trusts – Safeguarding	-	1,000	-	-	1,000
Pensions Contract Provision	-	112	-	-	112
VAT Liability for Voluntary Aided Schools (Property Scheme)	-	141	-	-	141
Accumulated Absences	46,992	107	(9,208)		37,891
Total provisions	**106,351**	**35,959**	**(55,491)**	**(5,364)**	**81,455**

Insurance provision

We set aside funds to cover liability claims which our insurers will not pay because they fall below our excess and our annual self-insured limits. These claims may relate to employer's liability, public liability or buildings insurance. There are no material unfunded risks.

The insurance provision contains large cash resources which may not be needed for several years. We use these resources to support our internal loans reserve (see accounting policy 21 and note 12 revenue reserves). The provision is made at a level of estimated total amount for the financial year for which the authority will be liable, and will be due for payment in future years. The authority has also taken in to account historical trends and the existing external insurance arrangements it has it place An exercise has been undertaken to assess the impact of claims likely to be settled in futures years, both for years up to and including 2010/11 which will fall to be met from the current provision, and for years from 2011/12 onwards which will govern the level of contribution to the provision needed in future years. This has resulted in a reduction in the provision by £7.3 million in 2010/11. The provision will continue to be monitored and adjusted to reflect the forecast impact of future claims on an annual basis.

Teachers' pension provision

In 1995 part-time hourly-paid teachers and lecturers were allowed to join the Teachers' Pension Scheme. With effect from 1 April 2002, any arrears of contributions have to be recovered in full from the employer i.e. the county council. There is a delay in processing applications for some staff therefore the provision was established to fund these contributions. The spending met from the provision in year relates to applications which have been settled.

Building Schools for the Future

This provision relates to abortive costs which will be incurred by the authority in association with the cessation of the Phase 4 – Building Schools for the Future Programme (BSF). This provision will also assist in bridging the funding gap anticipated with the outstanding BSF programmes. It is anticipated that the associated work and costs will be incurred in 2011/12.

Planning appeal costs

This provision covers the estimated costs of consultants and legal advice and representation as a result of ongoing appeals, public enquiries and judicial review relating to planning applications.

Sure Start local programmes

The Department for Education (DFE), formerly Department for Children Schools and Families (DCSF) have now processed all audits for a number of programmes up to and including the financial year 2005/06 (after this time Sure Start local programme grant was paid directly to local authorities through, and audited as part of, the General Sure Start Grant). Following the completion of audits, taking into account payments made, certified expenditure and qualifications raised by the auditor, the DCSF came to the conclusion that the county council owed DCSF the amount of £95,000 in respect of revenue grant. However following a subsequent review by the county council of the qualifications raised, this amount is unlikely to be repaid to the Department for Education (DFE), and therefore this provision is no longer required.

Swimming repairs and maintenance

This provision is to cover the cost of repairs and maintenance work required as identified by the county council's property group, following health and safety inspections of Heysham, Carnforth and Hornby swimming pools. It is anticipated that the associated work will be undertaken during 2011/12.

Youth Service redesign

This provision is for transitional costs (for example redundancy costs and lease buy-out costs), relating to the redesign of the Youth and Community Service, following the merger of the former Youth Service and Connexions. It is envisaged that this will be utilised during 2011/12.

Welfare Compensation Payments

This provision is for payments to be made to schools to compensate for the delay in recruitment procedures for the appointment of School Support Officers in 2008/09. This provision has been utilised during 2009/10.

Employment Tribunal

This provision is for current employment tribunal cases pending following the merger of the former Youth Service and Connexions to form the Young Peoples Service. Outstanding cases are likely to be resolved during 2011/12.

Turton Museum Capital Scheme

This provision is to assist with the transfer of operational responsibility for Turton Tower Museum to Blackburn with Darwen Borough Council and forms part of the negotiated arrangements. This liability crystallised on completion of the legal documentation which took place in 2010/11.

Gawthorpe Museum Capital Scheme

This provision is for the estimated backlog of repair and maintenance and dilapidations required on the Gawthorpe Museum. The county council is currently negotiating new arrangements in respect of this facility, which are likely to crystallize such liabilities. The estimates have been taken from briefing papers prepared by the county council's property group. Negotiations are progressing slowly pending a review of the future options for the museum. A major restructure of the service and other service priorities have delayed progress on this issue.

Section 117 client refunds

This provision is for the refund of client contributions under section 117 of the Mental Health Act. These refunds are made as and when individual service users present valid claims to the county council.

Redundancy Provision

The provision sets aside funds to cover the estimated costs for redundancy arrangements agreed by 31 March 2010 which will take effect in 2010/11.

Equal Pay Review Provision

This provision covers the estimated costs of compensation payments and pay protection following the Equal Pay Review.

School Library Service

This was a provision for the acquisition of a new schools library service base at Tustin Way. These works were undertaken during early 2010/11 as occupation of the new base was secured.

Aids and Adaptations

This provision is for agreed financial support for property adaptation or alteration costs to homes of county council foster carer properties to facilitate long-term placements.
It is envisaged that contributions made to the provision during 2010/11 will be spent during 2011/12. The provision is based on an estimate of costs and the complexity of the work will determine the timing of the date of completion.

Provision for VAT Liability for Voluntary Aided Schools (Property Scheme)

A reassessment of the application of rules for reclaiming VAT for voluntary aided schools has lead to the authority having to provide for a liability to HM Revenue and Customs. It is anticipated that the liability will be settled in early 2011/12.

Pensions Contract Provision

This provision is for the potential termination of external contracts. It is anticipated that this will be needed in around five years time to cover potential redundancy costs and timing issue on payments for software.

Legal Settlement and Costs

This provision is for an ongoing legal settlement case which will be resolved in 2011/12.

Provision for Childrens Trusts – Safeguarding

This provision relates to additional investment provided by the Schools Budget specifically to support the Lancashire Early Intervention Strategy. This funding will be distributed to the twelve Lancashire Trust Partnerships in 2011/12.

Accumulated Absences Provision

The accumulated absences provision is required to cover the cost of annual leave entitlement carried over to the following financial year. If an employee were to leave the authority they would be entitled to payment for this untaken leave.

52. Assets Held for Sale

	Current		Non Current	
	2010/11	2009/10	2010/11	2009/10
	£000	£000	£000	£000
Balance outstanding at start of year	2,749	2,321	-	-
Assets newly classified as held for sale:				
Property Plant and Equipment	2,564	2,986	-	-
Intangible Assets	-	-	-	-
Other assets/liabilities in disposal groups				
Revaluation losses	(679)	(237)	-	-
Revaluation gains	-	-	-	-
Impairment losses	-	-	-	-
Assets declassified as held for sale:				
Property Plant and Equipment	(298)	-	-	-
Intangible Assets	-	-	-	-
Other assets/liabilities in disposal groups	-	-	-	-
Assets sold	(1,955)	(2,321)	-	-
Transfers from non-current to current	-	-	-	-
Other movements	(16)	-	-	-
Balance outstanding at year end	**2,365**	**2,749**	-	-

53. Usable Reserves

Movements in the authority's useable reserves are detailed in the Movement in Reserves Statement.

54. Unusable Reserves

Revaluation Reserve

The revaluation reserve contains the gains made by the authority arising from increases in the value of its property, plant and equipment and intangible assets. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains are realised.

The revaluation reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

	2010/11	**2009/10**
	£000	£000
Balance at 1st April	640,784	535,676
Upward revaluation of assets	139,150	124,546
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(20,092)	(13,151)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	**119,057**	**111,395**
Difference between fair value depreciation and historical cost depreciation	(7,753)	(5,912)
Accumulated gains on assets sold or scrapped	(10,650)	(375)
Reclassifications	(288)	
Amount written off to the Capital Adjustment Account	(18,691)	(6,287)
Balance at 31st March	**741,150**	**640,784**

Capital Adjustment Account

The capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the authority as finance for the costs of acquisition, construction and enhancement.

The account contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 9, adjustments between funding basis and regulations, details the source of all the transactions posted to the account.

	2010/11	2009/10
	£000	**£000**
Balance at 1 April	863,391	825,357
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement		
Charges for depreciation and impairment of non current assets	(37,985)	(33,868)
Revaluation losses on Property, Plant and Equipment	(65,691)	(30,602)
Amortisation of intangible assets		
Revenue expenditure funded from capital under statute	(18,290)	(15,405)
Reversal of charge re transfer of Academies	(19,665)	
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(7,207)	(4,979)
Amounts written off on sale of Investment Bonds as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(7,635)	
Net written out amount of the cost of non-current assets consumed in the year		5,912
Adjustment of deferred consideration	(125)	(125)
Write down of Private Finance Initiative (PFI) liability		2,192
Adjusting amounts written out of the Revaluation Reserve	18,692	(4,078)
	725,485	**744,404**
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	10,380	153
Use of the Major Repairs Reserve to finance new capital expenditure		
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	29,914	69,735
Application of grants to capital financing from the Capital Grants	68,068	22,064

Unapplied Account		
Statutory provision for the financing of capital investment charged against the County Fund	28,480	22,486
Capital expenditure charged against the County Fund	2,893	3,549
	139,735	117,987
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	51	1,000
Movement in the Donated Assets Account credited to the Comprehensive Income and Expenditure Statement		
Reclassifications	(3,306)	
Balance at 31 March	**861,965**	**863,391**

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the authority arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost, or disposed of and the gains are realised.

	2010/11	2009/10
	£000	£000
Balance at 1st April	-	
Upward revaluation of investments	-	-
Downward revaluation of investment not charged to the (Surplus)/Deficit on the Provision of Services	7,159	-
	7,159	-
Accumulated gains on assets sold and maturing assets written out to the Comprehensive Income and Expenditure Statement as part of Other Investment Income	-	-
Balance as at 31st March	7,159	-

Financial Instruments Adjustment Account

The financial instruments adjustment account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

	2010/11	2009/10
	£000	**£000**
Balance at 1st April	**83**	**56**
Premiums incurred in year and charged to the Comprehensive Income and Expenditure Statement	(27,092)	-
Proportion of premiums incurred in previous financial years to be charged against the County Fund balance	207	(28)
Reversal of soft loan fair value adjustment	-	223
Icelandic Banks	1,180	1,398
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(25,705)	1,593
Balance as at 31st March	**25,622**	**(3,186)**

The amount by which finance costs charged to the Comprehensive Income and Expenditure Statement (CIES) are different from finance costs chargeable in the year is the net premium incurred in the debt restructure. This will be written down to Comprehensive Income and Expenditure Statement, in accordance with our accounting policies, over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid.

Pensions Reserve

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The authority accounts for post employment benefits in the comprehensive income and expenditure statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed, as the authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

	2010/11	2009/10
	£000	**£000**
Balance at 1st April	(1,059,958)	(747,643)
Actuarial gains or (losses) on pensions assets and liabilities	281,902	(205,537)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(73,630)	(188,169)
Employer's pension contributions and direct payments to pensioners payable in the year	86,474	81,391
Balance at 31st March	**(765,212)**	**(1,059,958)**

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the difference arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the County fund from the Collection Fund.

	2010/11	2009/10
	£000	**£000**
Balance at 1st April	(1,255)	-
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	2,425	(1,255)
Balance at 31 March	**1,170**	**(1,255)**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the County fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the County fund Balance is neutralised by transfers to or from the account.

	2010/11	2009/10
	£000	**£000**
Balance at 1st April	(46,992)	(51,002)
Settlement or cancellation of accrual made at the end of the preceding year	46,992	51,002
Amounts accrued at the end of the current year	(37,890)	(46,992)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	9,101	4,010
Balance at 31 March	**(37,890)**	**(46,992)**

55. Long Term Debtors

Long term debts to the authority are shown below:

	31st March 2010/11	31st March 2009/10	1st April 2009
	£000	**£000**	**£000**
Transferred Debt	47,900	50,907	54,797
Total	**47,900**	**50,907**	**54,797**

Transferred debt is debt which we manage for other authorities, which is being repaid over time.

56. Deferred consideration

Deferred consideration relates to the difference between the market value of the land transferred at zero value to the contractors as part of the Lancashire Waste PFI schemes and the estimated value of the land subject to PFI restrictions. The amounts outstanding are as follows.

	31 March 2011 £000	31 March 2010 £000	1st April 2009 £000
Waste sites	3,263	3,388	3,513
Total	**3,263**	**3,388**	**3,513**

Transferring the land means we pay a lower annual charge for the services provided.

57. Deferred liabilities

Deferred liabilities consist of liabilities which by arrangement are payable beyond the next year at some point in the future, or paid off by annual lump sum over a period of time.

The table below breaks down the amount we owe.

	31 March 2011 £000	31 March 2010 £000	1st April 2009 £000
Premiums paid by university	(365)	(395)	(426)
Fleetwood Sports College PFI development costs	(164)	(174)	(183)
Purchase of Moor Park High School	271	517	741
Blackpool Borough Council interest in waste PFI assets	(552)	(552)	(552)
Total	**(810)**	**(604)**	**(420)**

The balance of premiums paid by universities arose in 2005 when the University of Central Lancashire and Edge Hill University paid off the balance of debt, managed by us, on assets that they had inherited when they became independent of the county council.
Because there was some financial disadvantage to us in accepting this repayment, we required the universities to pay premiums to compensate us for the loss. Rather than bring in the whole amount of the premiums to the income and expenditure account in the year we received them, we placed a credit item on the balance sheet and are transferring this credit to the income and expenditure account in equal instalments over 18 years.

Deferred liabilities on the Fleetwood Sports College PFI relate to development costs being transferred to the income and expenditure account over a period of time.

The Moor Park High School item relates to the discharge of a high interest credit liability. At the end of 2006/07 the remaining capital outstanding on this arrangement was repaid prematurely and without penalty to avoid the high rate of interest being paid. The balance will be written down to the income and expenditure over a period of five years, this is the same period as that remaining on the arrangement when it was discharged.

The £0.552 million deferred liability to Blackpool Borough Council represents their share of the value of land transferred to the operator under the waste PFI contract. We do not have to repay this amount until the end of the contract.

Cashflow Statement Notes

58. Net (Surplus) or Deficit on the Provision of Services

2009/10			2010/11	
£000	**£000**		**£000**	**£000**
	(39,459)	**Net (Surplus) or Deficit on the Provision of Services**		**(128,034)**
(64,453)		Depreciation & Impairments	(103,676)	
(328)		Material Impairment losses on Investments debited to surplus or deficit on the provision of services in year	426	
-		Adjustment for movements in fair value of investments classified as Fair Value through Profit & Loss a/c	(7,160)	
223		Adjustments for effective interest rates	1,768	
(125)		Net PFI Debtor Adjustments	(125)	
181		Increase/Decrease in Interest Creditors	9,807	

(30,824)		Increase/Decrease in Creditors	36,030	
(8,116)		Increase/Decrease in Interest and Dividend Debtors	(1,993)	
3,816		Increase/Decrease in Debtors	1,170	
(156)		Increase/Decrease in Inventories	438	
(30,091)		Pension Liability	116,156	
(14,766)		Contributions (to)/from Provisions	24,897	
(3,890)		Transferred Debt	(3,007)	
(6,892)		other non cash movement	(566)	
(2,363)		Carrying amount of non-current assets sold [property plant and equipment, investment property and intangible assets]	(34,507)	
(254,203)		Carrying amount of short and long term investments sold	(471,912)	
982		Movement in Investment Property Values	52	
	(411,005)			**(432,202)**
		<u>Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities</u>		
107,709		Capital Grants credited to surplus or deficit on the provision of services	100,107	
253,532		Proceeds from the sale of short and long term investments	471,912	
596		Premiums or Discounts on the repayment of financial liabilities	785	
4,817		Proceeds from the sale of property plant and equipment, investment property and intangible assets	13,275	
	366,654			**586,079**
	(83,810)	**Net Cash Flows from Operating Activities**		**25,843**

59. Cash Flow Statement - Operating Activities (Interest)

	2010/11		2009/10	
	£000	**£000**	**£000**	**£000**
Ordinary interest received	(17,993)		(8,093)	
Other adjustments for differences between Effective Interest Rates and actual interest receivable	1,768		223	
Opening Debtor	(5,391)		(13,844)	
Closing Debtor	3,398		5,728	
Interest Received		**(18,218)**		**(15,986)**
Interest charge for year	33,359		31,547	
Adjustment for impairment losses on Long & Short Term Investments charged to Interest Payable	426		-	
Opening Creditor	6,710		6,890	
Closing Creditor	(3,097)		(6,709)	
Interest Paid		**37,398**		**31,728**

60. Cash Flows from Investing Activities

	2010/11		2009/10	
	£000	**£000**	**£000**	**£000**
Property, Plant and Equipment Purchased	240,429		178,612	
Purchase of Investment Properties	7,635		-	
Add back new Finance Leases (non cash flow item)	(84,623)		(33,520)	
Movement on capital creditors	(3,177)		1,661	
Purchase of Property, Plant and Equipment, investment property and intangible assets		**160,264**		**146,753**
Purchase of short term investments	484,279		222,949	
Purchase of long term investments	226,830		54,957	
Purchase of short and long term investments		**711,109**		**277,906**
Proceeds from the sale of property plant and equipment, investment property and intangible assets		**(5,672)**		**(1,880)**
Proceeds from short term investments	(471,912)		(253,532)	
Proceeds from short-term and long-term investments		**(471,912)**		**(253,532)**
Other capital cash receipts	(10,558)		(6,832)	
Capital Grants Received	(92,202)		(107,045)	
Other Receipts from Investing Activities		**(102,760)**		**(113,877)**
Total Cash Flows from Investing Activities		**291,029**		**55,370**

61. Cash Flows from Financing Activities

	2010/11		2009/10	
	£000	£000	£000	£000
Cash receipts of short and long term borrowing		**(1,728,011)**		**(108,596)**
Precepting Authorities Only - Appropriation to/from Collection Fund Adjustment Account		**2,425**		**(788)**
Repayment of Short-Term and Long-Term Borrowing		**1,577,539**		**14,835**
Payments for the reduction of a finance lease liability	4,329		2,132	
Payments for the reduction of a PFI liability	10		10	
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts		**4,339**		**2,142**
Total Cash Flows from Financing Activities		**(143,708)**		**(92,407)**

62. Makeup of Cash and Cash Equivalents

	2010/11	2009/10	2008/09
	£000	£000	£000
Cash and Bank Balances	(34,453)	(30,307)	(28,308)
Cash Investments - regarded as cash equivalents	(36,903)	(214,213)	(95,365)
	(71,356)	**(244,520)**	**(123,673)**

Other Notes

63. Termination Benefits

The authority terminated the contracts of 1,013 employees (which include 175 employees for schools) in 2010/11, incurring liabilities of £47.6 million (£37.9 million in 2009/10). These amounts were payable to employees across the various departments of the authority who were made redundant as part of the authority's rationalisation programme.

64. Related parties

In accordance with International Accounting Standard (IAS) 24 *Related Party Disclosures*, our financial statements must draw attention to the possibility that our financial position may have been affected by related parties and by financial transactions with them.

The government

Central government controls our general activities. It is responsible for providing the legal framework we operate in. It provides most of our funding through grants and sets out the terms for

our major dealings with other organisations (for example, Council Tax precepts on district councils). Grants from the government are included in our accounts and in the notes to this statement of accounts.

County councillors

County councillors have direct control over our financial and operating policies. Under section 81 of the Local Government Act 2000, their outside interests are recorded in a formal register. This register of members' interests is available for inspection at the Office of the Chief Executive, County Hall, Preston. Details of how to inspect the register can be found on the council's website at:

http://www3.lancashire.gov.uk/corporate/atoz/a_to_z/service.asp?u_id=969&tab=1

Our code of conduct requires county councillors to declare any related interests they have, and to take no part in meetings or decisions on issues involving those interests.

In preparing this statement of accounts, we asked councillors to fill in a declaration about any interests which they or their family may have in organisations that we deal with. These interests include:

- roles as members of district councils in Lancashire;
- roles with voluntary organisations and Charities;
- roles within Limited Companies;
- family members employed by the county council, and so contributing to the County Pension Fund.

This has revealed that members had roles in the following organisations during 2010/11:

- CC Chris Holtom – Board member of Lancaster Dukes Theatre
- CC Geoffrey Roper – Member of Lancashire Police Authority
- CC George Adam – Chairman of Nelson Town Council; Director of Offspring Nursery, Nelson.
- CC Terry Aldridge – West Lancashire Borough Councillor
- CC Malcolm Barron – Tarleton Parish Councillor; Member of Lancashire Combined Fire Authority
- CC Charlie Briggs and his wife are Burnley Borough Councillors
- CC Pat Case – Chorley Borough Councillor
- CC Fabian Craig-Wilson – Fylde Borough Councillor; on the steering group of St Annes Library
- CC Frank De Molfetta – Leading member of the Lancashire Fire Authority
- CC Shelagh Derwent – Pendle Borough Councillor; Blacko Parish member
- CC Jimmy Eaton – Rossendale Borough Councillor; Bacup A, B & D Centre trustee.

- CC Peter Evans – Pension Fund Committee Member; Lancashire Fire Authority Member; Rossendale Borough Councillor.

- CC Mike France – Director AMJ Ltd; Director of Lancashire County Developments Ltd

- CC Michael Green – South Ribble Borough Councillor and wife is councillor; Moss side Community Reform – executive member; Preston Vision Board – director; Regenerate Pennine Lancashire – board member; Lancashire and Blackpool Tourism Board – director.

- CC Paul Hayhurst – Fylde Borough Councillor; Elswick parish Council – member.

- CC Howard Henshaw – Lancashire County Developments Ltd – director; Fylde Borough Councillor and Mayor and wife is Mayoress ; St Davids Democrats – wife is director; St Annes Town Council – wife is town councillor; Lytham Rotary Club – past president; Lancashire Magistrates Court – wife is justice of the piece; Lytham Inner Wheel – wife was past president.

- CC Mark Jewell – Larches and Boxing club –treasurer.

- CC Graham Jones – Parliament MP.

- CC Tony Jones – Lancashire Police Authority member.

- CC Andrea Kay – Wyre Borough Councillor; Wyre Skate Night (YMCA) – Chair person; Royal Bank of Scotland employee; RSPCA – board member; Chamber of Trade Cleveleys – board member.

- CC Peter McCann – Burnley Borough Councillor.

- CC Peter Mullineaux – South Ribble Borough Councillor.

- CC Mike Otter – Preston and South Ribble – on the steering group; Chorley and South Ribble CAB – trustee; Community Futures – trustee; LALC – member.

- CC Miles Parkinson – Hyndburn Borough councillor; Prospects Foundation – board member; Barnfield and Hyndburn Ltd – Director; Globe Enterprises Ltd – director; bank Mill House – sit on management committee; Regenerate Pennine Lancashire – member; Lancashire Company Governing Body – leader of council; Pennine Lancashire Hyndburn – member; PLACE joint committee – member.

- CC Niki Penney – Lancashire Police Authority member; Lancaster Dukes Theatre – director; James Bond Trust – member; Lancashire County Developments Ltd – director.

- CC Sam Riches – Lancaster and District Womens Aid – trustee.

- CC John Shedwick – Lancashire Fire Authority member; Lancaster Dukes Theatre – director.

- CC David Smith – Ribble Valley Borough councillor.

- CC Ciaran Wells – Hyndburn Borough Councillor; Leisure in Hyndburn Co Ltd – board member; Barnfield and Hyndburn Ltd; Hyndburn and Barnfield Partnership – board member; Globe Enterprises Ltd – board member.

- CC David Westley – West Lancashire Borough Councillor.

- CC Keith Young – IRG (executive search and selection) Ltd – company secretary; Cash Caretaker LLP – designated partner; Pinpoint search Ltd – director.

County Councillor's Chris Holtom, Susie Charles, Niki Penney and John Shedwick declared interest as directors of Lancaster Dukes Theatre which received a £181,000 grant for 2010/11, however, in accordance with the code of conduct the members were not present in the awarding of this grant. A number of smaller grant awards were made to various voluntary organisations in 2010/11. Any Councillor with a related interest in such organisation was excluded from any decisions made in respect of these awards.

Officers

Our senior officers may influence our financial and operating policies. The officers of the Management Team have filled in a declaration about their related interests and those of their family. This has revealed that Management Team officers had roles in the following organisations during 2010/11:

- Ian Fisher BA (Hons), the county secretary and solicitor, was also company secretary to Blackpool Fylde and Wyre Economic Development Company Ltd , Connexions Lancashire Ltd, CX Ltd, Elevate East Lancashire, Fylde Coast Enterprise Partnership Ltd, LANPAC Limited, Lancashire Business and Innovation Ltd, Lancashire County Developments (Investments) Ltd, Lancashire County Developments (Property) Ltd, Lancashire County Developments Ltd, Lancashire County Enterprises (Leasing) Ltd, LCC Building Schools for the Future Ltd, LCC Nameholdco Limited, LWS Lancashire Environmental Fund Ltd, Lancashire Education Business Partnership Ltd, Lancashire Enterprises Partnership Ltd, Lancashire Enterprises (Investments) Ltd, Lancashire Sport Partnership Ltd, Lancashire Technology Centre Ltd, Lancashire Workforce Development Partnership Ltd, Lancashire and Blackpool Tourist Board Ltd, New Era Trust Ltd, Palatine Developments Ltd, Pennine Lancashire Enterprise Partnership Ltd, Preston Technology Management Centre Ltd, Preston Vision Ltd, Public Transport Information Ltd, Regenerate Pennine Lancashire Ltd, The Clayton Park Conference Centre Ltd, The Lancashire Partnership Against Crime Ltd, The Lancashire Rosebud (Small Firms) Fund Company Ltd.

- Gill Kilpatrick, the County treasurer, was also treasurer to the Lancashire County Pension Fund from February 2011. This role was previously carried out by Phil Halsall in his role as the Executive Director of Resources before being appointed as the Chief Executive on the 31/1/11.

- Ged Fitzgerald, the previous chief executive of Lancashire County Council up to 6/2/11, was also a director of the Lancashire Economic Partnership board, Regenerate Pennine Lancashire Ltd, Preston Vision Ltd, Community Foundation for Lancashire, Lancashire County developments Ltd, Lancashire Business and Innovation Centre Ltd, Lancashire County Developments (Investments) Ltd, Lancashire County Developments (Property) Ltd, Lancashire County Enterprises (Leasing) Ltd, Lancashire Enterprises (Investments) Ltd, The Lancashire Rosebud (Small Firms) Fund Company Ltd, Preston Technology Management Centre Ltd, Community Foundation for Lancashire.

- Phil Halsall, the new chief executive of Lancashire County Council from 31/1/11, took on the following roles effective from 9/2/11 in Lancashire County Developments (Investments) Ltd, Lancashire County Developments (Property) Ltd, Lancashire County Enterprises (Leasing)

Ltd, Lancashire Enterprises (Investments) Ltd, Lancashire Business and Innovation Centre Ltd, The Lancashire Rosebud (Small Firms) Fund Company Ltd, Preston Technology Management Centre Ltd, Preston Vision Ltd, Regenerate Pennine Lancashire Ltd, Blackpool Fylde and Wyre Economic Partnership Limited.

- Martin Kelly, Director of Economic Development acts as alternative to the Chief Executive for Lancashire County Developments (Investments) Ltd, Lancashire County Developments (Property) Ltd, Lancashire County Enterprises (Leasing) Ltd, Lancashire Enterprises (Investments) Ltd, Lancashire Business and Innovation Centre Ltd, The Lancashire Rosebud (Small Firms) Fund Company Ltd, Preston Technology Management Centre Ltd, Preston Vision Ltd, Regenerate Pennine Lancashire Ltd, Blackpool Fylde and Wyre Economic Partnership Limited, also as director in Lancashire and Blackpool Tourist Board Ltd and CXL.

- Helen Denton, Executive Director for Children and Young People chairs the National School Sailing Association.

Lancashire County Council's Interest in Other Organisations

As for 2007/08, 2008/09 and 2009/10, this year's statement of accounts does not include a set of group accounts. This note includes details of Lancashire County Council's interests in other organisations.

Lancashire County Developments Ltd

Lancashire County Developments Ltd (LCDL) acts as an economic and job creation agency for the county. It is a company limited by guarantee and has no issued share capital. The liability of members is limited to £1. The council controls 80% of the members' voting rights and it is classed as a subsidiary of the county council.

The county council's interest in LCDL is based on its contributions to the company's capital funding reserve, loans to the company and rights to appoint members of the company. As a limited company, LCDL must use its profits and income to further its business objectives. It is not allowed to distribute profits as dividends.

In 2010/11 the company made a net profit before tax of £1.775million (£0.201 million in 2009/10). At 31 March 2011 it had net current assets of £ 46.699million (£47.813 million at 31 March 2010).

LCDL's group accounts are summarised below:

31 March	**2011 £000**	**2010 £000**
Total income	8,509	8,031
Total expenditure	10,310	7,951
Profit (or loss) after tax	1,801	80

The group's financial position can be summarised as follows:

Fixed assets	43,187	42,967
Net current assets (or liabilities)	3,512	4,846

Total	46,699	47,813
Represented by:		
Capital reserves	28,062	28,062
Investment revaluation reserves	-	712
Retained profits	11,231	13,032
Long-term loans	7,274	5,942
Provisions for liabilities and charges	132	64
Total	46,699	47,812

There is more information about LCDL in its annual report and statement of accounts. Copies of these are available from the LCDL registered office: PO Box 78, County Hall, Preston, Lancashire PR1 8XJ. Due to timing this information is based on unaudited accounts, however there have been no audit qualifications to LCDL's accounts in the past.

Connexions Lancashire Ltd and CX Ltd

Up to 31 March 2007 the Connexions service, to support young people aged 13 to 19, was delivered in Lancashire, Blackburn with Darwen and Blackpool by Connexions Lancashire Limited (CLL), a company wholly owned by the three authorities.

As part of wider changes in the delivery of children's services, and in the case of the county council as part of the development of its Integrated Youth Support Service, these arrangements were changed from 1 April 2007.

The county council and Blackpool effectively took the provision of their Connexions-related services in-house (including the transfer of certain staff back to the authorities), whilst Blackburn with Darwen continued with the external company delivery method.

To accommodate these changes, with the agreement of the three authorities, a new company, CX Ltd, has been created. CX Ltd, also owned by the three authorities but with different proportions of voting rights than had been the case with CLL, would provide Connexions services to Blackburn with Darwen and other youth-related services to the county council and to Blackpool as well as selling similar services in the external market. Details of the position with regard to the county council's involvement with CX Ltd is set out below.

Connexions Lancashire Limited was dissolved on 6th July 2010.

CX Ltd (CXL)

CXL was incorporated on 11 January 2007 and began trading on 1 April 2007.

CXL is owned by Lancashire County Council, Blackburn with Darwen Borough Council and Blackpool Council, with the authorities owning shares in the Company in the following proportions: Lancashire County Council 40%; Blackburn with Darwen Borough Council 30%; and Blackpool Borough Council 30%. The voting rights of each authority in general meetings of the company directly reflect their shareholdings.

The Cabinet member for Schools and the Executive Director for Children and Young People (or her nominee(s)) sit on the board of CXL, and the County Secretary and Solicitor is the Company Secretary.

Whilst beginning trading during 2007/08 the CXL Board agreed that the company needed £0.5 million of working capital to finance its operational cash flows. This working capital has been obtained during the transitional period via a loan from CLL's funds. At the point when those cash balances were returned to the three authorities, that source of working capital funding was removed.

The three member authorities agreed to contribute a total of £500k of share capital to the new company for the purpose of providing this working capital to fund cash flows. The total of £0.5 million was contributed by each member in proportion to their shareholdings as set out above; the county council's share is thus £0.2 million.

The county council's share capital contribution of £0.2 million in 2008/09 was financed from the £0.9 million receipt of CLL's distributed funds; under the current regime governing local authorities' capital spending, this is treated as capital spending by the county council.

In 2010/11 the company made a loss (before tax) of £0.269 million (£0.100 million profit in 2009/10), turnover of £6.409 million (£8.129 million in 2009/10), and had net liabilities of £0.886 million as at 31 March 2011 (net liabilities of £0.747 million as at 31 March 2010). Due to timing this information is based on unaudited accounts, however there have been no audit qualifications to CX Ltd accounts in the past.

A copy of the accounts for Connexions Lancashire Ltd and CX Ltd can be obtained from their head office at Chorley House, Centurion Way, Leyland, Preston, Lancashire.

Lancashire and Blackpool Tourist Board Ltd

Lancashire and Blackpool Tourist Board Ltd was created in 2004. It is one of four boards that succeeded the North West Tourist Board. It is a company limited by guarantee and has no issued share capital. The liability of members is limited to £1.

The county council controls 43% of the voting rights, so the organisation is classed as an associate of the county council.

In 2010/11 Lancashire and Blackpool Tourist Board Ltd made a loss on operating activities (before tax) of £0.025 million (compared to a profit of £0.012 million in 2009/10). At 31 March 2011 it had operating income of £1.779 million (2009/10 £3.286 million) and net assets of £0.288 million (£0.314 million in 2009/10). A copy of the accounts can be obtained at PO Box 78, County Hall, Preston, Lancashire, PR1 8XJ. Due to timing this information is based on unaudited accounts, however there have been no audit qualifications to the accounts of Lancashire and Blackpool Tourist Board Ltd in the past.

LWS Lancashire Environmental Fund Ltd

LWS Lancashire Environmental Fund Ltd receives landfill tax credits and awards grants to environmental projects which meet the criteria specified by the Landfill Tax Regulations 1996 (as amended). It is a charitable company limited by guarantee and therefore has no share capital. The liability of members is limited to £1.

The county council controls 25% of the voting rights, so the organisation is classed as an associate of the county council.

The company's accounting year ends on 31 December. In 2010 LWS Lancashire Environmental Fund Ltd made a loss of £0.008 million (£0.065 profit in 2009). At 31 December 2010 it had a total income of £0.916 million (2009 £0.797 million) and net assets of £2.576 million (£2.585 million in 2009). A copy of the accounts can be obtained at PO Box 78, County Hall, Preston, PR1 8XJ.
This information is based on the audited accounts of LWS Lancashire Environmental Fund Ltd. There have been no audit qualifications to the accounts.

Public Transport Information Ltd

Public Transport Information (PTI) Ltd provides a public transport information service. It is part of the National Traveline network. PTI Ltd is a company limited by guarantee and has no issued share capital. The liability of a member is limited to £1.

The county council controls 40% of the voting rights, so the organisation is classed as an associate of the county council.

The company's accounting year ends on 31 July. For the year ended 31 July 2010, PTI Ltd made a loss (before tax) of £0.004million, (£0.014 million profit (before tax) in 2009/10), total income of £0.244 million (2009/10 £0.226 million) and net assets of £0.079 million (£0.082 million in 2009/10). A copy of the accounts can be obtained from companies' house at the cost of £1.00, at the following website www.companieshouse.gov.uk. This information is based on the audited accounts of Public Transport Information Ltd. There have been no audit qualifications in the accounts.

New Era Trust Ltd

New Era Trust Ltd provides community services to the residents of Hyndburn. It is a company limited by guarantee and the liability of members is limited to £1.

The county council controls 50% of the voting rights, so the organisation is classed as a joint venture with the county council.

In 2010/11 New Era Trust Ltd had a total income of £0.202 million (£0.239 million in 2009/10) and net income of £0.003million (net income of £0.033 million in 2009/10). On 31 March 2011 it had net assets of £0.97 million (£0.093 million in 2009/10). A copy of the accounts can be obtained from Elizabeth Pilkington at the following email address liz.pilkington@neweratrust.com. Due to

timing this information is based on unaudited accounts, however there have been no audit qualifications to the accounts in the past.

Building Schools For The Future Limited

LCC Building Schools for the Future (BSF) Limited is fully owned by the county council. It manages the council's investment through the Local Education Partnership into companies set up to run BSF Private Finance Initiative projects. The liability of a member is limited to £1.

In 2010/11 Building Schools for the Future Limited had a total income of £0.023 million (£0.013 million in 2009/10) and a profit (before tax) of £0.018 million (profit before tax of £0.009 million in 2009/10). On 31st March 2011 it had net assets of £0.023 million (net assets of £0.009 in 2009/10).

A copy of the accounts can be obtained from Lancashire County Council, PO Box 78, County Hall, Preston, Lancs PR1 8XJ. Due to timing this information is based on unaudited accounts, however there have been no audit qualifications to the accounts in the past.

Lancashire Youth Offending Team (YOT)

The Lancashire Youth Offending Team was set up under the Crime and Disorder Act 1998. It is a multi-agency team made up of the county council, the Police Authority, the Probation Service and three primary care trusts in Lancashire.

The youth offending team's budget for 2010/11 was £4.626 million (£3.458 million in 2009/10), funded by contributions from the partner organisations.

At 31 March it had a reserve of £1.367 million (£0.818 million for 2009/10 including £0.100 million for an insurance reserve in 2007/08, 2008/09 and 2009/10), accumulated from under spends in previous years. The partner organisations have agreed that this reserve can be carried forward to fund spending in future years. This information is based on unaudited accounts.

This reserve has not been included in our balance sheet.

Preston Vision Limited

The company exists to assist, promote, encourage, develop and secure the social, physical, economic, environmental and educational related development of the Preston City centre area and its gateways. It is a company limited by guarantee and the liability of members is limited to £1.

The county council controls 33% of the voting rights, so the organisation is classed as an associate of the county council.

The company received grant income totalling £0.389 million in 2010/11 including £0.004 million which was deferred in 2009/10 (£0.206 million in 2009/10 excluding £0.004 million). The company's profit after allowing for operation costs, provisions, interest and tax was nil. A copy of

the accounts can be obtained from Lancashire County Council, PO Box 78, County Hall, Preston, Lancs PR1 8XJ. Due to timing this information is based on unaudited accounts.

Lancashire Education Business Partnership Limited

This company was incorporated to support, advance and promote the education and training of children, young people and adults in Lancashire, Blackpool and Blackburn with Darwen councils in order to equip them for further education, employment and training. Lancashire County Council is one of three members of the company and controls 33% of the voting rights. The company is limited by guarantee and the liability of members is limited to £1.

In 2010/11 the company made a net income of £0.054 million (net income of £0.018 million in 2009/10). At 31 March 2010 it had a total income of £3.026 million (£1.960 million in 2009/10) and had net asset of £1.209 million (1.151 million in 2009/10).

A copy of the accounts can be obtained from Lancashire County Council, PO Box 78, County Hall, Preston, Lancs PR1 8XJ.

Due to timing this information is based on unaudited accounts, however there have been no audit qualifications to the accounts in the past.

Lancashire Workforce Development Limited

This organisation is an employer led Partnership between the Independent Social Care employers in Lancashire and Lancashire County Council, established to improve social care delivery through workforce training and development. Lancashire County Council is the sole member of the company with 100% of the voting rights, so the company is classed as a subsidiary of the county council. This is a company limited by guarantee and the liability of the council is limited to £1.

In 2010/11 the company made a net profit (before tax) of £0.802 million (£0.508 million in 2009/10) and had net assets of £1.063 million (1.361 million in 2009/10). At 31 March 2011 the company had a total turnover of £0.113 million (£0.060 million in 2009/10).

A copy of the accounts can be obtained from Lancashire County Council, PO Box 78, County Hall, Preston, Lancs PR1 8XJ. Due to timing this information is based on unaudited accounts, however there have been no audit qualifications to the accounts in the past.

Lancashire Partnership for Road Safety

The Lancashire Partnership for Road Safety was created in 2001 as part of the Department for Transport's National Safety Camera Programme. The principal aims of the partnership are to help achieve the Government's 2010 casualty reduction targets, to reduce site specific ambient speed levels and to change road users' behaviour and attitude where this is unacceptable. The partnership has developed the use of enforcement of the relevant legislation through the use of camera technology.

The accountable body for the Partnership is Lancashire County Council and gross expenditure in 2010/11 was £2.049 million, funded predominantly by contributions from Lancashire County Council, Blackburn with Darwen Council, Blackpool Council and Lancashire Police Authority.

Staff within the central ticket office are employed by Lancashire Constabulary and their costs, together with running costs of the office and speed camera maintenance etc are shared on an agreed basis between the Police, Lancashire County Council, the Lancashire Partnership for Road Safety and the Courts Service (the latter mainly for the occupation of premises). Should the arrangement cease there will be an exit strategy in relation to staff and the vacating of the premises.

A further minor risk to the council is that, should the Partnership be wound up, the authority is liable for 40% of any outstanding liabilities. However, the Partnership currently holds significant reserves so the risk of material cost to the Authority is currently considered to be low.

The authority incurred net expenditure of £1.257 million in 2010/11 (£1.338 million in 2009/10) which is Lancashire County Council's contribution to the Lancashire Partnership for Road Safety. This net expenditure amount has already been included within the authority's Comprehensive Income and Expenditure Statement.

Due to timing this information is based on unaudited accounts, however there have been no audit qualifications in the past.

Central Lancashire and Blackpool Growth Point Partnership (add new details for 2010/11)

This is a joint venture arrangement between Lancashire County Council, Preston City Council and Chorley Borough Council, South Ribble Council and Blackpool Council, where all decisions are made jointly between all parties. The partnership has secured fund from the Department for Communities and Local Government (DCLG) with the key aim of securing an accelerated housing growth which in turn will stimulate economic growth and regeneration in Central Lancashire (Preston, South Ribble and Chorley) and Blackpool.

In 2010/11 the partnership received funding for £2.331 million (2.054 million in 2009/10) and Lancashire County Council incurred net expenditure of £0.341 million (£0.619 million for 2009/10). This net expenditure has already been included within the authority's Comprehensive Income and Expenditure Statement.

Due to timing this information is based on unaudited accounts, however there have been no audit qualifications in the past.

Central Lancashire Joint Local Development Framework Partnership

This is a joint venture arrangement between Lancashire County Council, Chorley Borough Council, Preston City Council and South Ribble Council. This joint venture operates to provide planning policy advice to the Central Lancashire Joint Advisory Committee and the Executive Cabinets within Preston, Chorley and South Ribble councils, on the preparation of a joint core strategy and associated local development documents. Lancashire County Councils acts as the host for the joint local development framework and provides services in kind, which includes office accommodation, equipment, IT and administrative services and one member of staff to work on

the joint development framework team. Preston, South Ribble and Chorley councils also second staff, or an equivalent financial contribution to the joint local development framework in equal proportions. Lancashire County Council does not make any financial contributions to this joint venture arrangement.

Lancashire Sports Partnership Ltd

Lancashire Sports Partnership Ltd exists to increase participation in sport and physical activity across the 15 Local Authorities of the sub region in Lancashire. Since being established in 2000 the company has been hosted by Myerscough College. In April 2010 the company became a separate legal entity from the college Company Limited by Guarantee with a Board of Trustees.

In 2010/11 the company made a profit before tax of £0.331 million (2009/10 profit before tax £0.020 million), and total net assets of £0.352 million (2009/10 £0.020 million). At 31st March 2011 the company had a total turnover of £1.398 million (£1.539 million in 2009/10).

65. Contingent liabilities

These are liabilities which relate to past events, the effect and the costs of which remain uncertain. Because of this uncertainty, no entries have yet been made in the accounts.

Details of these liabilities are set out below:

- **Financial guarantees** – The county council approved the facility for the Lancashire Heritage Centre to have its loans from the Architectural Trust guaranteed up to the sum of £500,000 at any one time. This financial guarantee from the county council has been in place since 30 June 2004. Current estimates suggest the maximum payment for the current three loans could be £410,500. This is to be reviewed in 2011/12. However, the likelihood of a cost to the council is low risk due to the trust having assets worth of £2 million and an excellent track record of raising substantial funds to re-pay the loans themselves.

- **Single regeneration budget grant** - Some of this grant may have to be repaid. An amount of up to £489,000 is at risk, generally due to a shortage of information to support the claims. Continuing efforts are being made to locate additional information where appropriate and to reduce this liability.

- **Waste disposal contractor** – A waste disposal contractor has claimed additional costs above those included within the original contract price. We are vigorously defending the claims and negotiating whether they are valid and accurate. At this stage it is not possible to provide an accurate estimate of any costs which may arise out of this claim.

- **Solvency of LCC insurers Municipal Mutual Insurance** - Municipal Mutual Insurance provided insurance to LCC until the company ceased to underwrite in 1992. A scheme of arrangement was entered into by MMI with its creditors under the terms of which claims relating to the period of insurance continue to be paid out but, if a trigger point is reached where MMI has insufficient assets to pay remaining claims, a claw-back of some or all claims paid since 30 September 1993 could occur (to the value of the total claims paid minus £50k).

The position of the company is reviewed on an ongoing basis to ascertain the likelihood of the trigger point being reached. In the latest Annual Reports & Accounts of the Company (to 30 June 2010) the Directors of MMI are still predicting a solvent run-off of the Company with all claims costs (past or future) being met in full by MMI. However, a solvent run-off is not guaranteed and the County Council may incur some costs if it is not achieved. As per the six monthly statement at 31 March 2011 from MMI, the figures subject to clawback or payment percentage are as follows:-

Therefore the maximum total liability could be up to £9,023,226, and at this point the council has not deemed it necessary to create a provision until further information is available. This is reviewed on an on-going basis.

- **Section 278 agreements cessation of developers -** Section 278 agreements are schemes of work carried out on the existing adopted highway for the benefit of a third party usually 100% funded by the third party (e.g. new supermarket). Once a scheme has been completed, residents in the area have 7 years from the completion of the scheme to claim land compensation due to the impact of the works completed. The Authority has a contingent liability in relation to one particular developer who has gone into administration. The Authority has already provided for £62,669 within the bad debt provision for debt in relation to an invoice that was issued to the Developer in relation to land compensation claims. It is not possible to quantify the liability in the future as this is dependant on the number of claims made and the amount of compensation that is deemed to be due.

- **Lancashire Waste Technology Park Compulsory Purchase Order** - An award of costs following a public inquiry in relation to the Lancashire County Council (East Lancashire Waste Technology Park) Compulsory Purchase Order 2008 has been granted to Omega Atlantic Ltd as a successful objector by the Department for Communities and Local Government. The costs submitted by Omega have been considered and negotiations are on-going. The County Council has already paid out £125,000 in respect of this liability.

66. Contingent Assets

These arise from past events, and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the authority's control. An example of a contingent asset would be a claim for compensation that the authority is pursuing through the due legal process, where the outcome will only be determined by a decision of the courts.

Lancashire County Council has one Contingent Asset in 2010/11 as follows:-

- **Strategic Partnership - One Connect Limited** - It is proposed that the guaranteed savings for the period 1st January 2011 to 31st March 2011 be recognised as a contingent asset as at the balance sheet date. At the balance sheet date, negotiations around the Strategic Partnership had reached such a point as to conclude that the inflow of economic benefit (i.e. the guaranteed savings) was probable and would occur on contract signature. The economic benefit could also be estimated to a reliable degree based upon the agreed affordability budget as set out in the Service Provision Agreement. The total full year agreed 10% guaranteed saving is £4.228 million.

67. Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its officers and other employees, the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The authority participates in two pension schemes:

Local Government Pension Scheme – this is a funded defined benefit final salary scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.

The Teachers' Pension Scheme – this is an unfunded defined benefit final salary scheme administered by Lancashire County Council , meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

Transactions relating to retirement benefits

We recognised the cost of retirement benefits in the surplus/deficit on continuing operations in the Comprehensive Income and Expenditure Statement, when they are earned by employees, rather than when the benefits are eventually paid as pensions.

However, the charge we are required to make against council tax is based on the cash payable in the year, so the International Accounting Standard 19 (IAS 19) cost of retirement benefits is reversed out in the Movement in Reserve Statement against the County Fund balance. The following transactions have been made in the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement during the year:

	Local Government Pension Scheme 2010/11 £000	**Local Government Pension Scheme 2009/10 £000**	**Teachers Pension Scheme 2010/11 £000**	**Teachers Pension Scheme 2009/10 £000**
Comprehensive Income and Expenditure Statement				
Cost of Services:				
current service cost	67,372	41,696	-	-
past service cost/(gain)	(145,522)	150	(7,941)	-
Curtailment cost	10,663	6,675	314	2,374
Financing and Investment Income and Expenditure:				
interest cost	141,122	129,001	7,622	8,273
Expected return on scheme assets	(103,312)	(76,687)	-	-
Total Post Employment Benefit Charged to the Surplus or Deficit on the	**(29,677)**	**100,835**	**(5)**	**10,647**

Provision of Services				
Other Post Employment Benefit Charged to the Income and Expenditure Statement:				
actuarial (gains) and losses	(181,501)	260,063	2,911	22,161
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	(211,178)	360,898	2,906	32,808
Movement in Reserves Statement				
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the IFRS code	29,677	(100,835)	5	(10,647)
Actual amount charged against County Fund Balance for pensions in year				
Employers' contributions payable to scheme	75,890	70,489	-	-
Retirement benefits payable to pensioners	-	-	10,584	10,902

In 2010/11 we paid £51.7 million to the Department for Education for teachers' pension costs. This represents 14.8% of teachers' pensionable pay (£51.4 million and 14.9% in 2009/10).

We are also responsible for all discretionary pension payments we have awarded to teachers, together with related increases. In 2010/11 these amounted to £8.4 million, representing 2.4% of pensionable pay (£8.4 million and 2.5% in 2009/10).

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Statement, actuarial gains of £178.590 million (£282.224 million loss in 2009/10) were included in the Statement of Other Comprehensive Income. The cumulative amount of actuarial gains and losses recognised in the Statement of Other Comprehensive Income is a loss of £101.471 million.

Assets and liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities:

	Funded liabilities: Local Government Pension Scheme		Unfunded liabilities: Teachers Pension Scheme	
	2010/11 £000	**2009/10 £000**	**2010/11 £000**	**2009/10 £000**
1 April	2,522,504	1,828,200	143,878	121,972
Current service cost	67,372	41,696	-	-
Interest cost	141,122	129,001	7,622	8,273
Contributions by scheme participants	22,155	22,372	-	-
Actuarial (gains) and losses	(151,811)	581,058	2,911	22,161
Benefits paid	(94,464)	(86,648)	(10,584)	(10,902)
Curtailments	10,663	6,675	314	2,374
Past service costs/(gain)	(145,522)	150	(7,941)	-
31 March	**2,372,019**	**2,522,504**	**136,200**	**143,878**

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme	
	2010/11 £000	**2009/10 £000**
1 April	1,606,424	1,202,529
Expected rate of return	103,312	76,687
Actuarial gains and (losses)	29,690	320,995
Employer contributions	75,890	70,489
Contributions by scheme participants	22,155	22,372
Benefits paid	(94,464)	(86,648)
31 March	**1,743,007**	**1,606,424**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was a gain of £129.783 million (2009/10 gain of £397.682 million).

Scheme history

Present value of liabilities:	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000
Local Government Pension Scheme	(1,883,994)	(2,144,466)	(1,828,200)	(2,522,504)	(2,372,019)
Teachers pension scheme	(119,719)	(142,023)	(121,972)	(143,878)	(136,200)
Fair value of assets in Local Government Pension Scheme	1,500,493	1,512,157	1,202,529	1,606,424	1,743,007
Surplus/(deficit) in the Scheme:					
Local Government Pension Scheme	(383,501)	(632,309)	(625,671)	(916,080)	(629,012)
Teachers Pension Scheme	(119,719)	(142,023)	(121,972)	(143,878)	(136,200)
Total	**(503,220)**	**(774,332)**	**(747,643)**	**(1,059,958)**	**(765,212)**

*The council has elected not to restate fair value of scheme assets for 2006/07 as permitted by International Accounting Standard (IAS 19), (as revised), nor to restate 2006/07 and 2007/08 fair values on the grounds of materiality.

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £765.212 million has a substantial impact on the net worth of the authority as recorded in the Balance Sheet, resulting in net assets of £1,094.454 million.

The UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1st April 2011 public service pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI).

This has the effect of reducing Lancashire County Council's liabilities in the Lancashire Pension Fund by £153.486 million (£145.545 million for the Local Authority Pension Scheme and £7.941 million for the Teachers pension scheme), and has been recognised as a past service gain in accordance with guidance set down in UITF Abstract 48, since the change is considered to be a change in benefit entitlement. There is no impact on the County Fund.

However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy.

The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, assessed by the scheme actuary.

The total contributions expected to be made to the Local Government Pension Scheme by the council in the year to 31 March 2012 is £56.432 million. Expected contributions for the Teachers Pension Scheme in the year to 31 March 2012 are £51.143 million.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in the future years dependent on assumptions about mortality rates, salary levels, etc. Both the Teachers Pension Scheme and County Council Fund liabilities have been assessed by Mercer Human Resource Consulting Limited, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2010.

The principal assumptions used by the actuary have been:

	Local Government Pension Scheme		**Teachers Pension Scheme**	
	2010/11	**2009/10**	**2010/11**	**2009/10**
Long-term expected rate of return on assets in the scheme:				
Equity investments	7.50%	7.50%	-	-
Bonds	4.75%	4.85%	-	-
Other	4.83%	4.83%	-	-
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	23.0 years	21.2 years	23.0 years	21.2 years
Women	25.8 years	24.1 years	25.8 years	24.1 years
Longevity at 65 for future pensioners:				
Men	21.6 years	22.2 years	21.6 years	22.2 years
Women	24.2 years	25 years	24.2 years	25 years
Rate of inflation (CPI)	2.90%	3.30%	2.80%	3.30%
Rate of increase in salaries	4.90%	5.05%	4.90%	5.05%
Rate of increase in pensions	2.90%	3.30%	2.80%	3.30%
Rate for discounting scheme liabilities	5.50%	5.60%	5.40%	5.60%
Take-up option to convert annual pension into retirement lump sum	50%	50%	50%	50%

The Teachers Pension Scheme has no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the local assets held:

	31 March 2011	31 March 2010
	%	%
Equity investments	64.0	66.0%
Bonds	21.0	19.0%
Other assets	15.0	15.0%
	100	100

History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve 2009/10 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 2010:

	2006/07	2007/08	2008/09	2009/10	2010/11
	%	%	%	%	%
Differences between the expected and actual return on assets	-1	-6	-34	-20	2
Experience gains and losses on liabilities	0	1	0	0	6

68. Events after the balance sheet date

Date on which the Financial Statement were authorised for issue

The Statement of Accounts was authorised for issue by the County Treasurer on 29 June 2011. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2011, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The strategic partnership agreement between Lancashire County Council and BT was signed on 28 April 2011. This contract formalised the creation of One Connect Ltd (OCL), enabling services to be delivered through the strategic partnership from 16th May 2011. The company is jointly owned by BT (60%) and Lancashire County Council (40%) and has been awarded a ten year contract to deliver a range of services. A contingent asset has been recognised at the balance sheet date in respect of guaranteed savings under the strategic partnership agreement pertaining to the period 1st January 2011 to 31st March 2011, prior to contract signature but on the basis that the inflow of economic benefit had become probable at the balance sheet date.

Other Fund and Reserves

Trust and special funds

We manage several small trust and special funds. Most of the trust funds have been set up as a result of gifts and bequests to be used for the benefit of children, students or clients at a particular school, college or home, or in a specific area.

Each fund balance is invested in line with the terms of the relevant trust deed. The annual income is used to meet the aims of the trust, for example by providing school prizes.

The capital accounts in the table below show the value of the investment money that has been bequeathed.

The revenue accounts record the day-to-day transactions of the funds, including income earned from investments and payments made to beneficiaries.

The movements on fund balances are summarised below.

	Children and Young People £	Adult and Community Services £	Other £	Total 2010/11 £	Total 2009/10 £
Capital accounts					
Balances at 1 April	171,900	2,963	813	175,676	143,022
Net movements in funds	3,492	88	-	3,580	32,654
Balances at 31 March	175,392	3,051	813	179,256	175,676
Revenue accounts					
Balances at 1 April	34,936	6,033	14,069	55,038	50,280
Income received	(8,856)	(160)	(7,884)	(16,900)	(34,125)
Payments during the year	647	-	17,383	18,030	29,367
Balances at 31 March	43,145	6,193	4,570	53,908	55,038
Aggregate balances					
at 31 March (capital and revenue)	218,537	9,244	5,383	233,164	230,714

Lancashire County Pension Fund

Accounts
2010 - 2011

Accounts of the Fund

Responsibilities for the Statement of Accounts

The Responsibilities of the Administering Authority

The Administering Authority is required:

- To make arrangements for the proper administration of the financial affairs of the Lancashire County Pension Fund (Pension Fund), and to ensure that an officer has the responsibility for the administration of those affairs. For Lancashire County Council, the respective officer is the County Treasurer, who is also the Treasurer to the Pension Fund;

- To manage its affairs to secure economic, efficient and effective use of resources, and to safeguard its assets.

The Responsibilities of the Treasurer to the Pension Fund

The Treasurer to the Pension Fund is responsible for the preparation of the Pension Fund's statement of accounts. In accordance with the CIPFA Code of Practice on Local Authority Accounting in Great Britain (the Code), the statement is required to present fairly the financial position of the Pension Fund at the accounting date, and its income and expenditure for the year then ended.

In preparing this statement of accounts, the Treasurer to the Pension Fund has:

- Selected suitable accounting policies and then applied them consistently;

- Made judgements and estimates that were reasonable and prudent;

- Complied with the Code.

In addition, the Treasurer to the Pension Fund has:

- Kept proper accounting records which were up to date;

- Taken responsible steps for the prevention and detection of fraud and other irregularities.

The Statement of Accounts relate to the financial year ended 31 March 2011 and include the Fund Account and the Statement of Net Assets which are prepared in accordance with standard accounting practice as outlined in the notes to the accounts of the Pension Fund.

Gill Kilpatrick CPFA
Treasurer to the Lancashire County Pension Fund
29 June 2011

Fund Account

	Note	2010/11 £000	2009/10 £000
Contributions and Benefits			
Contributions	6	227,220	208,419
Transfers in	7	15,619	26,697
		242,839	235,116
Benefits	8	214,497	182,808
Payments to and on account of leavers	9	12,752	21,794
Administrative expenses	10	3,658	3,471
		230,907	208,073
Net additions from dealings with members		**11,932**	**27,043**
Return on investments			
Investment income	11	89,327	71,431
Change in market value of investments	13	238,831	934,980
Investment management expenses	17	(8,004)	(5,807)
Net return on investments		**320,154**	**1,000,604**
Net increase (decrease) in the fund during the year		**332,086**	**1,027,647**
Net assets of the scheme			
At 1 April		**3,961,585**	**2,933,938**
At 31 March		**4,293,671**	**3,961,585**

Statement of Net Assets

Year Ended 31 March	Note	2011 £000	2010 £000
Investment assets	13	4,282,145	3,951,836
Investment liabilities	13	(890)	(1,506)
Current assets	18	21,627	13,277
Current liabilities	19	(9,211)	(2,022)
		4,293,671	**3,961,585**

The Pension Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

This statement of accounts is that upon which the auditor should enter his certificate and opinion. It presents fairly the position of the Lancashire County Pension Fund at 31 March 2011 and its income and expenditure for the year then ended.

Gill Kilpatrick CPFA

Treasurer to the Lancashire County Pension Fund
29 June 2011

County Councillor Sam Chapman

Chairman of the Audit Committee

26 September 2011

Notes to the Financial Statements

1. Pension Fund Operations and Membership

The Lancashire County Pension Fund is administered by Lancashire County Council. With the exception of Teachers, to whom separate arrangements apply, membership of the Pension Fund is available to County and District Council employees within Lancashire, and to employees of organisations that have entered into Pension Fund Admission Agreements with the County Council.

The published accounts show that in 2010/11 cash inflows during the year consisted of £332.166 million and cash outflows were £238.911 million, representing a net cash inflow of £93.255 million (compared with an inflow of £92.667 million in the previous year). Benefits payable amounted to £214.497 million and were partially offset by net investment income of £89.327 million (including £14.672 million accrued dividends); contributions of £227.220 million and transfers in of £15.619 million produced the positive cash inflow.

The investments of the Pension Fund are managed by eight external investment managers. The asset allocation and policy in respect of the investments of the Fund is determined by the Pension Fund Committee, which meets four times a year with the Investment Panel in attendance. The Investment Panel meet at least quarterly, or otherwise as necessary. The panel are responsible for making recommendations to the Pension Fund Committee in relation to the investment strategy of the fund as well as monitoring the activities and performance of the investment managers. Full details of the Panel and Committees responsibilities are published in the Funds Statement of Investment Principles and are available from the Funds website at
http://www.yourpensionservice.org.uk

The participation in the Pension Fund is shown in the table below, followed by the member organisations of the Pension Fund.

Participation in the Pension Fund

	Number at 31 March 2011	Number at 31 March 2010
(1) Active Scheme Members		
Scheduled Bodies	47,912	49,707
Admitted Bodies	3,781	4,021
Total	**51,693**	**53,728**
(2) Pensioners		
Pensions in Payment	37,632	35,933
Preserved Pensions	44,928	41,330
Total	**82,560**	**77,263**

Member Organisations

Scheduled Bodies

Accrington Academy
Accrington & Rossendale College
Barnoldswick Town Council
Blackburn College
Blackburn with Darwen Borough Council
Blackpool & Fylde College
Blackpool Borough Council
Blackpool Coastal Housing
Blackpool Sixth Form College
Burnley Borough Council
Burnley College
Cardinal Newman College
Catterall Parish Council
Chorley Borough Council
Clitheroe Royal Grammar School (Academy)
Darwen Aldridge Community Academy
Edge Hill University
Fulwood Academy
Fylde Borough Council
Garstang Town Council
Hambleton Primary Academy
Hyndburn Borough Council
Kirkland Parish Council
Lancashire County Council
Lancashire Fire & Rescue Service
Lancashire Police Authority
Lancashire Probation Trust
Lancashire Sports Partnership
Lancashire Valuation Tribunal
Lancaster & Morecambe College
Lancaster City Council
Lancaster Girls Grammar School (Academy)
Myerscough College
Nelson & Colne College
Pendle Borough Council
Penwortham Town Council
Pilling Parish Council
Preston City Council
Preston College
Preston Vision Ltd
Ribble Valley Borough Council
Rossendale Borough Council
Runshaw College
South Ribble Borough Council
St Annes on Sea Town Council
St Mary's College, Blackburn
University of Central Lancs
West Lancs District Council
Whitworth Town Council
Wyre Borough Council

Admitted Bodies

ABM Catering Ltd
Alternative Futures
Alzheimers Society
Andron Contract Services Ltd (City of Preston)
Andron Contract Services Ltd (Glenburn)
Andron Contract Services Ltd (Kennington)
Andron Contract Services Ltd (Ribblesdale)
Andron Contract Services Ltd (Southlands)
Arnold Schools Ltd
Beaufort Avenue Day Care Centre
Blackburn Diocesan Adoption Agency
Blackburn NHS (PCT)
Blackpool & Fylde MIND Association
Blackpool & Fylde Society for the Blind
Blackpool Airport Ltd (post 05/07/2004)
Blackpool Town Centre Business Improvement District Ltd
Blackpool Zoo (Grant Leisure)
Bootstrap Enterprises Ltd
Bulloughs Contract Services Ltd (St Stephens)
Bulloughs Contract Services Ltd (St James)
Bulloughs Contract Services Ltd (Whalley)
Bulloughs Contract Services Ltd (Our Lady)
Bulloughs Contract Services Ltd (St Marys)
Bulloughs Contract Services Ltd (St Augustine)
Bulloughs Contract Services Ltd (Highfield)
Calico Housing Ltd
Capita Business Services (Blackburn)
Capita Business Services (Rossendale)
Caritas Care Ltd
Chorley Community Housing Ltd
Church Road Day Care Unit
Commission for Education & Formation
Community and Business Partners CIC
Community Council of Lancashire
Community Gateway Association
CX Ltd
Connaught Environmental Ltd (Blackpool BC)
Connaught Environmental Ltd (Blackpool Coastal)
Contour Housing Group
Consultant Caterers Ltd
Creative Support Ltd
CSB Contract Services Ltd
Danfo UK Ltd
Enterprise Managed Services Ltd
E ON UK Plc
Eric Wright Commercial Ltd
Fylde Coast YMCA (Fylde)
Fylde Community Link
Galloway Society For The Blind
Housing Pendle Ltd

Admitted Bodies (cont'd)

Hyndburn Homes Ltd

I Care
Kirkham Grammar School (Independent)
Lancashire and Blackpool Tourist Board
Lancashire Branch of Unison
Lancaster University
Leisure in Hyndburn
Liberata UK Ltd (Chorley)
Liberata UK Ltd (Pendle)
Lytham Schools Foundation
Mack Trading Ltd
Mellors Catering Services Ltd (Bishop Rawstorne)
Mellors Catering Services Ltd (Wyre)
NIC Services Group Ltd
NSL Ltd (Lancaster)
New Directions
New Fylde Housing
New Progress Housing Association
Northgate Managed Services Ltd
North West & North Wales Sea Fisheries Committee
Ormerod Home Trust Ltd
Pendle Leisure Trust Ltd
Preston Care & Repair
Preston Council for Voluntary Services
Progress Care Housing Association
Progress Housing Group
Progress Recruitment (SE) Ltd
Queen Elizabeth Grammar School
Ribble Valley Homes
Rossendale Leisure Trust
Signposts MARC Ltd
Solar Facilities Management Ltd (Tarleton)
Solar Facilities Management Ltd (Seven Stars)
Solar Facilities Management Ltd (St Peters)
South Ribble Community Leisure Ltd
Sungard Vivista Ltd
Surestart Hyndburn
Twin Valley Homes Ltd
University of Cumbria
Vita Lend Lease
West Lancs Community Leisure Ltd
Wyre Housing Association

Former Employers

Andron Contract Services Ltd (Worden Sports College)
Blackpool Airport Ltd (pre 05/07/2004)
Blackpool & Fylde Society for the Deaf
Blackburn Borough Transport Ltd
Blackpool Challenge Partnership
Blackpool Council for Voluntary Services
Bulloughs Contract Services Ltd (St Albans)
Bulloughs Contract Services Ltd (Glenburn)
Burnley & Pendle Development Association
Burnley & Pendle Joint Transport Committee
Burnley & Pendle Transport Company Ltd
Burnley District Citizens Advice Service
Burton Manor Residential College
Carden Croft and Co Ltd
Central Lancs Development Corporation
Clitheroe Town Council
Department of Transport
Dignity Funerals Ltd
Elm House Management Committee
Enterprise
Ex National Water Council
Ex NHS
Fylde Borough Transport Ltd
Fylde Coast Developments Association
Fylde Coast YMCA (Wyre)
Greater Deepdale Community Association
Hyndburn Homewise
Hyndburn Transport
Kirkham Grammar School (Boarding)
Lancashire County Enterprises Ltd
Lancashire Economic Partnership
Lancashire Federation of Young Farmers Clubs
Lancashire Magistrates Courts Committee
Lancashire Waste Services Ltd
Lancashire West Partnership
Lancaster City Transport Ltd
Lancashire On-Line Learning
Lancaster Royal Grammar School (Boarding)
Lancs South East Probation Committee
Lancs South West Probation Committee
Mellors Catering Services Ltd (Cardinal Newman)
Merseyside Valuation & CCT
NSL Ltd (Wyre)
Pilling & Winmarleigh Internal Drainage Board
Preston Borough Transport Ltd
Preston Education Action Zone
Redstone Managed Services Ltd
Samlesbury & Cuerdale Parish Council

Former Employers (cont'd)

Skelmersdale College
Skelmersdale Day Centre
Skelmersdale Development Corporation
Solar Facilities Management Ltd (Bishop Rawstorne)
Solar Facilities Management Ltd (Ripley)
Spastics Society
The Community Alliance (Burnley and Padiham) Ltd
Wigan & District M&T College

Other

Blackpool Transport Services Ltd
Rossendale Transport Ltd
(Membership restricted to employees "deemed" at deregulation in 1986)

Basis of Preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). This is the Pension Fund's first year of adoption of IFRS. Due to previous convergence of UK GAAP with IFRS there are no material differences in the financial statements arising from the transition.

The financial statements summarise the transactions and net assets of the Pension Fund. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The Actuarial position of the Pension Fund does take account of such obligations

3. Actuarial Position

The Actuarial position of the Pension Fund is dealt with in detail in the Actuarial Report section of the Pension Fund Annual Report.

In summary, the last actuarial valuation was undertaken by Mercer Consulting as at 31 March 2010.

On the basis of the assumptions adopted, the valuation revealed that the value of the Fund's assets of £3,962 million represented 80% of the Funding Target of £4,955 million at the valuation date. The valuation also showed that a common rate of contribution of 12.5% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 6.6% of pensionable pay for 19 years. This would imply an average employer contribution rate of 19.1% of pensionable pay in total.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report dated 31 March 2011. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers (although certain employers have some allowance for non-ill health early retirement costs included in their certified contribution rate).

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities	For future service liabilities
Rate of return on investments:		
- pre retirement	7.0% per annum	6.75% per annum
- post retirement	5.5% per annum	6.75% per annum
Rate of pay increases:	5.0% per annum	5.0% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension):	3.0% per annum	3.0% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

In order to assess the value of the benefits on this basis, we have used the same actuarial assumptions as those used for funding purposes, other than the discount rate where we have used a rate of 5.6% p.a. both before and after retirement, rather than the rates as outlined above. We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. On this basis, the value of the Fund's promised retirement benefits as at 31 March 2010 was £5,422 million.

We have also carried out similar calculations as at the previous actuarial valuation date of 31 March 2007, using the same actuarial assumptions as those used for funding purposes at that date, other than the discount rate where we have used a rate of 5.4% p.a. both before and after retirement. On this basis, the value, for IAS 26 purposes, of the Fund's promised retirement benefits at that date was £4,942 million.

John Livesey

Fellow of the Institute and Faculty of Actuaries

Mercer Limited

June 2011

4. **Accounting Policies**

- **General**

The financial statements have been prepared on an accruals basis except for transfers to and from the Pension Fund and contributions refunded, which are treated on a cash basis. Investment Management expenses are generally linked to the value of Funds under management. There is no performance related fees payable during 2010/11.

- **Valuation of Assets**

Investments are shown at their fair value as at 31 March 2011. The fair value is the current bid price for quoted securities and unitised securities.

Investments denominated in foreign currency are stated in the accounts by the application of the appropriate closing rate of exchange ruling at 31 March 2011.

Futures are exchange traded and fair value is determined using exchange prices at their reporting date.

Forward foreign exchange contracts, are over the counter contracts and are valued by determining the gain or loss that arise from closing out the contract at the reporting date, by entering into an equal and opposite contract at that date

The fund's freehold and leasehold properties were valued on 31 March 2011 by Cushman & Wakefield, acting as External Valuer. The valuations were in accordance with the requirements of the RICS Valuation standards and the International Valuation Standards. The valuation of each property was on the basis of Market Value, assuming that the property would be sold subject to any existing leases. The valuer's opinion of Market Value and Existing Use Value was primarily derived using comparable recent market transactions on arm's length terms.

Investments in Private Equity are valued at fair value in accordance with the guidelines issued by the British Venture Capital Association, or equivalent.

Investments in the Hedge Fund of Funds portfolio are valued at fair value on the basis of the closing market valuation provided by the administrator of each underlying fund.

- **Employers' Contributions**

Employers' contributions are based on rates determined, at their triennial valuation, by the Actuary of the Pension Fund. (The rates used for the year ending 31 March 2011 came into effect 1 April 2008, following the Actuary's Valuation of the Pension Fund at 31 March 2007).

5. **Assumptions made about the future and other major sources of estimated uncertainty**

The financial Statements contain estimated figures that are based on assumptions made by the Pension Fund about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Pension Fund's net asset statement at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Private Equity	Private Equity investments are valued at fair value in accordance with BVCA guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total Private Equity investments in the financial statements are £201.8m. There is a risk that this investment may be under or overstated in the accounts.
Hedge Fund of Funds	The Fund of Funds is valued at the sum of the fair values provided by the administrators of the underlying funds plus adjustments that the Fund of Funds' directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total Hedge Fund of Funds value in the financial statements is £70m. There is a risk that this investment may be under or overstated in the accounts.

6. Contributions receivable

	2010/11 £000	2009/10 £000
Employers' contributions		
County Council	70,845	64,580
Scheduled Bodies	85,610	73,591
Admitted	14,314	13,524
	170,769	151,695
Employees' contributions		
County Council	22,491	22,421
Scheduled Bodies	28,818	28,860
Admitted	5,142	5,443
	56,451	56,724

	2010/11	2009/10
Total contributions	227,220	208,419

Within the employee contributions figure for 2010/11, £280,938 is voluntary and additional regular contributions. All employee contributions are normal contributions.

7. Transfers in

	2010/11 £000	2009/10 £000
Individual transfers in from other schemes	15,619	24,900
Bulk transfers in from other schemes	0	1,797
	15,619	26,697

8. Benefits

	2010/11 £000	2009/10 £000
Pensions	149,206	141,347
Lump Sum retirement benefits	60,932	36,835
Lump Sum death benefits	4,359	4,626
	214,497	182,808

9. Payments to and on account of leavers

	2010/11 £000	2009/10 £000
Refunds to members leaving service	19	14
Contributions equivalent premium	(1)	(7)
Individual transfers to other schemes	12,734	21,787
	12,752	21,794

10. Administrative expenses

	2010/11 £000	2009/10 £000
Administration and processing	3,314	3,117
Audit fee	94	95
Legal and other professional fees	250	259
	3,658	3,471

All other costs of administration are borne by the employer. The administration and processing expenses are a proportion of relevant officers' salaries in respect of the time allocated to pension administration and investment issues.

11. Investment income

	2010/11 £000	2009/10 £000
Income from fixed interest securities	23,906	21,440
Dividends from equities	29,591	27,638
Income from index linked securities	4,664	3,169
Income from pooled investment vehicles	851	313
Net rents from properties	23,357	16,980
Interest on cash deposits	1,464	2,447
Other	5,494	(556)
Total Investment Income	89,327	71,431

The above investment Income is shown net of irrecoverable withholding tax, which amounted to £642,111 in 2010/11 (2009/10: £583,533). Income received in respect of Legal and General pooled funds are automatically reinvested within the relevant sector fund and are therefore excluded from the above analysis.

12. Stock Lending

EsecLending is authorised to release stock to a third party under stock lending arrangements up to the statutory limits for this activity. Stock lending income generated in 2010/11 was £178,513 (Due to economic circumstances there was no stock lending income in 2009/10).

Securities on loan at the 31st March 2011 were £96.1m and are included in the net asset statement to reflect the scheme's continuing economic interest in the securities and consist of £11.1m of equities and £85m of bonds. The related collateral totalled £100.9 million.

13. **Investments**

	Value at 1 April 2010 £000	Purchases at cost and derivative payments £000	Sales proceeds and derivative receipts £000	Change in market value £000	Value at 31 March 2011 £000
Investment assets					
Fixed interest securities	448,115	406,366	(295,504)	122	559,099
Equities	1,011,699	1,090,374	(442,198)	75,195	1,735,070
Index linked securities	103,240	50,946	(15,957)	2,819	141,048
Pooled investment vehicles	1,962,203	154,919	(872,607)	151,043	1,395,558
Derivative contracts	23	4,116	(2,367)	(919)	853
Property	306,115	89,889	(9,070)	10,571	397,505
	3,831,395	1,796,610	(1,637,703)	238,831	4,229,133
Derivative contracts (forward currency positions)	1,573				1,779
Cash deposits	106,180				36,561
Other investment balances	12,688				14,672
	3,951,836				4,282,145
Investment liabilities					
Derivative contracts (forward currency positions)	1,506				890
Net investments	3,950,330				4,281,255

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchases and in sale proceeds. Transaction costs include costs charged directly to the Pension Fund, such as fees, commissions paid to agents, brokers and dealers, levies by regulatory agencies and securities exchanges and transfer taxes and duties. Transaction costs incurred during the year 2010/11 amounted to £2,316,511 (2009/10: £2,381,789).

The investment assets at 31 March 2011 are managed by eight external investment managers, with the remaining cash deposits managed in-house. The split of the investment assets by investment manager is shown below.

Manager	**2010/11 £000**	**%**
Legal & General Investment Management	1,046,129	24
Newton Investment Management	638,819	15
J P Morgan Asset Management	500,826	12
UBS Global Asset Management	602,907	14
Knight Frank	397,505	9
Capital Dynamics	201,872	5
Gottex Fund Management	69,589	2
Mellon Transition Management	701,481	16
In-House	122,127	3
	4,281,255	100

Fixed Interest Securities	**2010/11 £000**	**2009/10 £000**
UK public sector quoted	179,848	193,424
UK corporate bonds quoted	352,300	239,967
Overseas public sector	0	240
Overseas corporate bonds	26,951	14,484
	559,099	448,115

Equities	**2010/11 £000**	**2009/10 £000**
UK quoted	832,599	456,182

Overseas quoted	902,471	555,517
	1,735,070	1,011,699

Index Linked Securities	2010/11 £000	2009/10 £000
UK quoted	141,048	103,240
	141,048	103,240

Pooled Investment Vehicles		2010/11 £000	2009/10 £000
Managed/Unitised funds	- UK Equities	448,871	757,116
	- Overseas Equities	423,247	711,962
	- Public Sector Bonds	0	94,864
	- Corporate Bonds	141,833	134,664
	- Index Linked	32,178	30,176
Unit trusts	- UK Equities	22,351	16,082
	- Overseas Equities	4,807	6,192
Other pooled investment vehicles	- UK	5,943	0
	- Overseas	44,870	0
Private Equity investments	- UK	32,026	28,689
	- Overseas	169,843	116,400
Hedge Fund of Funds		69,589	66,058
		1,395,558	1,962,203

Properties	2010/11 £000	2009/10 £000
UK – Freehold	318,925	238,750
UK – Long Leasehold	78,580	67,365
	397,505	306,115

The valuation of each property is on the basis of market value, assuming that the property would be sold subject to any existing leases. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's length terms.

Derivatives Contracts	2010/11 £000	2009/10 £000
Futures Contracts	853	23
	853	23

Type of Future	Expiration	Economic Exposure £000	Asset £000	Liability £000
UK gilt exchange traded	3 months	(18,747)	112	
Hang Seng (HKG)	1 month	3,961	59	
MSCI Singapore Index	1 month	4,939	102	
SPI 200 Index	3 months	13,810	580	
Total			853	

The economic exposure represents the notional value of stock purchased under the futures contract and therefore the value is subject to market movements. Derivative receipts and payments represent the realised gains and losses on futures contracts. Derivatives are held to manage economic exposure to markets, enhance investment returns and manage risk. Futures are used by the Pension Fund's bond manager to reallocate risk and exposures within the bonds portfolio.

Derivative contracts (forward currency positions)

Settlement date	Bought £'000 EQV	Sold £'000 EQV	£'000
Investment assets			
6 months and under	41,753	43,532	1,779
Investment liabilities			
6 months and under	27,221	28,111	890

Forward Foreign currency contracts are used to hedge against foreign currency movements.

Cash Deposits	2010/11 £000	2009/10 £000
Sterling	33,514	105,970
Foreign currency	3,047	210
	36,561	106,180

Other investment balances	2010/11 £000	2009/10 £000
Outstanding dividend entitlements and recoverable withholding tax	14,672	12,688
	14,672	12,688

14. **Nature and extent of risks arising from Financial Instruments**

Credit Risk

The Pension Fund's credit risk is managed through the Fund's Treasury Management policy which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid out by the Fitch and Moody's rating services. The Treasury Management Policy also imposes a maximum sum to be invested with a financial institution located within each category.

The credit criteria are detailed below:

Instrument	Credit Rating (using Sector criteria)	Maximum Individual Investment (£m)	Maximum Maturity (not investment period)
Government Bonds and Treasury Bills	AA+	1,000	50 yrs
Supranational Bonds G10 Sovereign Bonds	AA+	1,000	50 yrs
Investment Grade Corporate Bonds	AAA	250	25ys
	AA	150	10yrs
	A	75	5yrs

Instrument	Credit Rating (using Sector criteria)	Maximum Individual Investment (£m)	Maximum Maturity (not investment period)
General collateral reverse repurchase agreements	AA+ or better	1,000	1yr
Term Deposits with UK and Overseas Banks (domiciled in UK) and Building Societies	Purple (Highest quality, greatest certainty of support)	200	1 yr
	Orange (Highest quality, slightly less certainty of support)	100	1yr
	Red (Highest quality but lower than orange)	50	3 months
	Green (Quality, but lower than Red and lower certainty of support)	25	1 months
Public Works Loan Board – Debt Management Office Deposit Facility	Government Institution	500	Less than 6mths
Other UK Local Authorities and Pension Funds	AAA (implied currently)	500	50yrs
Money Market Funds	AAA Rated, weighted average maturity 6 months	250	These investments do not have a defined maturity date.
Bond Funds	AAA Rated Weighted average maturity less than 5yrs	200	These investments do not have a defined maturity date.
Certificates of Deposit. Collateralised lending agreements backed by higher quality government or local government and	AA, with AAA for any collateral used	500	5yrs

Instrument	Credit Rating (using Sector criteria)	Maximum Individual Investment (£m)	Maximum Maturity (not investment period)
supranational securities.			
Non credit rated "nationalised" banks	Blue	250	1yr

The placing of residual overnight deposits will be with either the Pension Fund's custodian bank or Lancashire County Council.

Liquidity Risk

The Pension Fund has no plans to borrow money, but under the Fund's regulatory regime, it may do so in certain limited circumstances, to:

pay benefits due under the scheme; or

meet investment commitments arising from the implementation of a decision by it to change the balance between different types of investment

The Pension Fund may only borrow money if, at the time of borrowing, the Treasurer reasonably believes that the sum borrowed and interest charged in respect of such sum can be repaid out of the Pension Fund within 90 days of the date of the borrowing.

If borrowing were necessary, the Treasurer, with the Treasury Management Team, would seek the most cost effective and prudent source of funds appropriate for the purpose. Borrowings would be structured in such a way as to be most suitable for the specific need.

Investment Risk

In order to achieve its statutory obligations to pay pensions, the Pension Fund invests its assets, including employer and employee contributions in a way that allows it to meet its liabilities as they fall due for payment. The Pension Fund's Statement of Investment Principles sets out the Investment Strategy and the benchmark range of asset allocations.

Any investment transaction carries a degree of risk including credit risk, market risk, interest rate risk and foreign exchange risk. The Pension Fund mitigates against these risks by diversification across asset classes, markets and sectors. The Pension Fund also ensures that all the managers invest in accordance with the Local Government Pension Scheme Regulations 1998 and it's Statement of Investment Principles.

The Pension Fund also stipulates the following investment restrictions on manager contracts:-

Global Equities Manager

The managers shall not invest more than 5% of the value of the portfolio or the FT all share weighting of stock plus 2%, whichever is greater, in any one issue.

A maximum of 2% of any class of a company's issued share capital may be held within the portfolio.

The Manager may only enter into derivatives as a protective measure subject to the following limits:

- No more than 5% of the portfolio may be invested in gilt and equity index futures.
- Currency futures must be limited to 1/3 of overseas currency exposure by individual markets.
- The Manager must give prior notification of entry into derivative markets.
- No more than 30% of the total value of the Pension Fund portfolio shall be invested in overseas markets with subsidiary limits of 25% for overseas equities and 15% for overseas bonds.

No more than 10% of global fixed income investments, including index linked investments, may be invested in securities issued by issuers who are not government guaranteed or supranational issuers. Corporate bonds must have a minimum credit rate of Aa3/AA as measured by Moody's or Standard & Poor's.

UK Equities Manager

The managers shall not invest more than 5% of the value of the portfolio in any one issue.

Derivatives are used for efficient portfolio management only with a maximum exposure of 10% of the assets held.

A maximum of 2% of any class of a company's issued share capital may be held within the portfolio.

Bonds Manager

Maximum exposure to currencies other than sterling is 10% of the market value of the fund.

The manager may use derivatives for hedging and efficient portfolio management, the maximum derivate exposure, excluding hedging is 30% of the Fund.

The maximum exposure to option premium exclusive of any in-the money portion of the premium is 5% of the Fund.

Stock lending

The contract with the third party lending agent states that stock can only be lent to a list of approved borrowers.

The contract also states that the third party lending agent can only accept collateral in the form of government debt or supranational bonds from a limited range of countries and organisations, with a minimum issuer credit rating of Aaa by Moody's or AAA by Standard & Poor's.

In addition to the specific restrictions above, the managers comply with relevant regulatory framework, which requires that specific risk warnings should be given to clients to highlight the nature of such transactions.

15. **Additional Voluntary Contributions (AVC’s)**

The AVC providers to the Pension Fund are Equitable Life and Prudential. The AVC’s are invested separately from the Pension Fund’s main assets and used to acquire additional money purchase benefits. These are not included in the Pension Fund accounts in accordance with regulation 5(2) (C) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831). Members participating in these AVC arrangements each receive an annual statement confirming the amounts held in their account and the movements during the year. A summary of the information provided by Equitable Life and Prudential is shown below. (This summary has not been subject to Audit and the Pension Fund relies on the individual contributors to check deductions made on their behalf are accurately reflected in the statements provided by the AVC providers). The figures relate to the financial year 1 April 2010 to 31 March 2011 for Prudential and 1 September 2009 to 31 August 2010 for Equitable Life.

	Equitable Life	**Prudential**	**Total**
	£000	**£000**	**£000**
Value at the start of the year	1,445	13,798	15,243
Income (incl. contributions, bonuses, interest, transfers in)	74	4,656	4,730
Expenditure (incl. benefits, transfers out, change in market value)	258	3,322	3,580
Value at the end of the year	1,261	15,132	16,393

16. **Custody of Investments**

The Pension Fund's current custodian, Bank of New York Mellon is responsible for the safekeeping of assets, collection of income due, and settlement of trades and provides an independent confirmation and valuation of assets held by the Pension Fund. The custodian contract has recently been tendered and the contract has been awarded to Northern Trust, who will take over the custody of the Pension Fund from 1 August 2011.

The Pension Fund's index tracking manager, Legal and General Investment Management, invests funds with Legal and General Assurance (Pensions Management) Ltd in a unitised policy of assurance, which is reported on by the custodian.

Lancashire County Council is the custodian of the Pension Fund's private equity and property portfolios.

Citco Fund Services Europe B.V. is the custodian of the Hedge Fund of Funds portfolio.

17. **Investment management expenses**

	2010/11 £000	**2009/10 £000**
Administration, management and custody	6,214	5,270
Performance measurement service	59	73
Other advisory fees	1,731	464
	8,004	5,807

18. **Current assets**

		2010/11 £000	**2009/10 £000**
Contributions due from:	Employers	13,390	5,985
	Members	2,589	2,545
Debtors: bodies external to general government		5,648	4,747

	21,627	13,277

Included within the contributions due from employers figure is £2.7 million, in relation to a deferred debt due from the Ministry of Justice in transferring Lancashire Magistrates Courts to central government.

These payments will be received in 10 annual instalments, the total figure having been discounted over the life of the deferral.

19. **Current liabilities**

	2010/11 £000	2009/10 £000
Unpaid benefits	7,739	0
Accrued expenses	1,472	2,022
	9,211	2,022

20. **Taxation**

The Pension Fund has been approved by HMRC as an exempt approved scheme and is, therefore, exempt from UK income tax and capital gains tax on the profits resulting from the sale of investments. The Pension Fund is also exempt from United States withholding tax on dividends and recovers withholding taxes on other foreign dividends where authorised by the relevant tax treaty or foreign legislation. As Lancashire County Council is the administering authority of the Pension Fund, VAT input tax is recoverable on all the Pension Fund's activities, including expenditure on investment and property expenses.

21. **Contingent Asset and Liability**

The Pension Fund is a member of two group litigation actions aimed at reclaiming tax credits on overseas dividends and foreign income dividends on the basis that the original denial of a full tax credit was in contravention of EU non-discrimination law. If successful the estimated potential income to the Pension Fund is in the region of £10m. The estimated fees payable in respect of the litigations, regardless of the outcome, are approximately £300,000. This issue is still progressing through the courts.

22. **Contractual Commitments**

The Pension Fund holds investments in various Private Equity partnerships, the value of these investments at 31 March 2011 being £201.8m. Commitments to these partnerships are drawn down over a number of years. The term of an individual investment can be up to 10 years. Realisation of these investments in the form of distributions normally occurs towards the end of the investment period, when portfolio companies have built value and can be liquidated. The outstanding commitments at 31 March 2011 are £152.2m.

23. **Related Party Transactions**

In accordance with IFRS, the financial statements must contain the disclosures necessary to draw attention to the possibility that the reported financial position of the Pension Fund may have been affected by the existence of related parties and associated material transactions. They include:

- At 31 March 2011, Gill Kilpatrick, CPFA, was Treasurer to the Pension Fund and County Treasurer for Lancashire County Council.
- The Pension Fund includes 50 scheduled and 148 admitted bodies. A list of the individual bodies within the scheme is found at note 1 to these accounts.
- The Pension Fund Committee comprises 13 County Councillors, 2 Councillors from Unitary Authorities, 2 Councillors from the Lancashire Leaders Group, 2 Trade Union representatives, 1 representative from the Higher/Further education establishments and the Investment Advisory Panel.

The Pension Fund Committee members and senior officers of the Pension Fund were asked to complete a related party declaration for 2010/11. This revealed no material transactions between the Council and the members / officers and their families affecting involvement with the Pension Fund. Each member of the Pension Fund Committee formally considers conflicts of interest at each meeting.

The Pension Fund invests cash with Lancashire County Council, the administering authority for the Pension Fund. At 31 March 2011 the balance invested with the County Council is £7,229,854. Cash invested with Lancashire County Council has generated interest of £1,336,923 during 2010/11.

24. **Impairment of Icelandic Investment**

At the time the Icelandic banks collapsed in October 2008, Lancashire County Pension Fund had an investment of £2.487m with Landsbanki.

At the time the winding up committee decided that wholesale depositors, such as local authorities, were preferential creditors, meaning that they would be amongst the first claims to be paid

distributions from the winding up of the company. This decision makes a great deal of difference to the amount of the claim against the assets of the bank which the Pension Fund can expect to receive. Due to the sums involved the decision was challenged through the Icelandic courts by vulture funds and other non-preferential creditors.

The case was heard on 14-18 February in Reykjavik and the decision passed down by the judge on 1st April. The Icelandic District Court found in favour of local authorities and ruled that deposits placed by UK wholesale depositors have priority status in the winding up of the Icelandic banks. Subsequently an appeal to the Supreme Court has been made and a final decision is expected in September 2011. No indication has been given as yet to the timing of any distributions.

Based on the current statement of assets and liabilities of the bank the most up to date indications are that the Authority will recover 94.85% of the value of the claim (CIPFA May 2011).

The Pension Fund has taken a prudent approach and has not adjusted its recovery to reflect the 94.85%, as this figure is wholly dependant on realisations made from the assets of the bank and may change. In its accounts, the Pension Fund has assumed that it will receive back 83p in the pound, without interest payable over a number of years and has left the impairment at £518,280 (the same as 31 March 2010).

25. Statement of Investment Principles

The Pension Fund operates within its approved Statement of Investment Principles, which is published by the Fund and available from the Fund's website at http://www.yourpensionservice.org.uk.

GLOSSARY

Accounting Policies
The specific principles, bases, conventions, rules and practices applied by the authority in preparing and presenting financial statements.

Accrual
The concept that income and expenditure are recognised as they are earned or incurred, not as cash is received or paid.

Actuary
An actuary is an expert on pension scheme assets and liabilities. The Local Government Pension Scheme Actuary reassesses the rate of employer contributions to the pension fund every three years.

Actuarial gains and losses
A change in pension fund liability due to the effects of differences between the previous actuarial assumptions and what has actually occurred. Outcomes are better or worse than the actuary had predicted or assumed – for example, because the fund's assets earn more than expected, salaries do not increase as fast as assumed or members retire later than assumed.

Agency services
Services which one council is responsible for, but which another council provides (as the agent). The council responsible pays the agent council the cost of the services provided.

Amortisation
An annual charge to the revenue account that spreads the cost of an asset over a period of time.

Appropriation
A contribution to or from a financial reserve.

Audit qualification
A comment made by the auditors if they are not completely satisfied with the accounts.

Budget
A statement which reflects the county council's policies in financial terms and which sets out its spending plans for a given period.

Capital assets
Assets bought through capital expenditure. They are also known as 'capital items' and 'fixed assets'.

Capital creditors
Amounts owed by the county council for spending on buying or improving assets.

Capital expenditure
Spending on buying or improving assets that have a long-term benefit – for example land, buildings and roads. Capital expenditure is also known as 'capital spending', 'capital outlay' and 'capital payments'.

Capital grant
Money received for capital items (see 'capital expenditure' above).

Capitalisation

The classification of expenditure as capital rather than revenue, subject to the condition that the expenditure yields a benefit to the authority for a period of more than one year.

Capital investment

Money invested in capital projects.

Capital projects
Projects to buy or improve assets that have a long-term benefit – for example, land, buildings and roads. These projects are funded by capital expenditure.

Capital receipts
Proceeds received from the sale of capital assets. The proceeds are set aside in the Capital reserve in order to repay the county council's borrowings or to finance new capital expenditure.

Capital schemes
Another term for 'capital projects'.

Capitalise
To treat as capital expenditure rather than revenue expenditure.

Capital elements
Various items of costs e.g. materials and interest payments.

Capital funding
Money to support spending on capital projects.

Capital receipts
Amounts received from the sale of capital assets. These can only be used for 'capital purposes' – to repay an existing debt or to finance new capital expenditure. Amounts received which have not yet been used are referred to as 'capital receipts unapplied'.

Capital reserves
Amounts set aside to support future capital projects.

Capital value
Amount spent on capital.

Cash balance
Cash available to invest on the money market.

Cash Equivalents
Short term (less than 3 months), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash transactions
Cash amounts entering or leaving the accounts – for example, to pay for goods or services, or income from fees and charges.

Central items
Central overheads e.g. payroll costs.

Change in Accounting Estimate
An adjustment of the carrying amount of an asset or liability that results from an assessment of the present status and future benefits or obligations. These changes occur as a result of new information, and are not corrections of errors.

Class of tangible non current assets
The classes of tangible non current assets required to be included in the accounting statements are:

Operational assets:

- Council dwellings.
- Other land and buildings.
- Vehicles, plant, furniture and equipment.
- Infrastructure assets – these are inalienable assets, expenditure on which is only recoverable by continued use of the asset created, i.e. there is no prospect of sale or alternative use. Examples of infrastructure assets are maintenance of highways and footpaths.
- Community assets – these are assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historical buildings.

Non Operational Assets:

- Surplus asset
- Assets under construction

CIPFA

The Chartered Institute of Public Finance and Accountants is the accountancy body which recommends accounting practice for the preparation of local authority accounts.

Collection fund
The system used by district and borough councils to keep Council Tax separate from their own accounts. The amount in the collection fund each year is fed into the Council Tax calculation for the following year.

Construction Contract
A contract specifically negotiated for the construction of an asset and services related to the construction, for example architects.

Contingent liabilities
Liabilities relating to a known set of circumstances which may or may not arise. They can also be liabilities which are likely to arise but which are very difficult to measure until future developments make things clearer.

Contributions equivalent premium

Money that is repaid to the DSS when someone opts out of the county pension scheme and rejoins the state scheme. All benefits are repaid as if that person had never left the state scheme.

Corporate and democratic core
The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to the services.

Corporate governance
The authoritative rules and controls in place within an organisation required to promote openness, inclusivity, integrity and accountability.

Council Tax precept
The Council Tax charged by one authority (the precepting authority) which is collected by another authority (the billing authority). The county council's Council Tax income is charged through a precept on the district councils' collection funds. (The Environment Agency also charges the county council a precept for flood prevention purposes).

County Fund
The main revenue fund used to provide county council services (also known as the 'County fund'). Income to the fund consists of the county precept on the collection funds, government grants and other income.

Creditors
Amounts owed by the county council for work carried out, goods received or services provided, which had not been paid by the date of the balance sheet.

Current assets and liabilities
Current assets are cash, cash equivalents and items that can be readily converted into cash. Current liabilities are items that are due for payment immediately or in the short term.

By convention these items are ordered by reference to the ease that the asset can be converted into cash, and the timescale in which the liability falls due.

Current service cost (IAS 19)
The increase in the county council's defined benefit scheme obligation (pension scheme liability) as a result of employees' service during the current year.

Curtailment cost (IAS 19)
Additional pension scheme liabilities as a result of redundancies and efficiency retirements during the year.

Debt redemption
This is where a debt is repaid early.

Debtors
Amounts owed to the county council which had not been paid by the date of the balance sheet.

Deferred charge
Capital expenditure which does not produce an asset that is controlled by the county council – for example, grants to other authorities for capital purposes.

Deferred credit
Money received but not yet reported as income in the revenue account.

Deferred liabilities
Debts to be settled some time in the future, but the actual date is not certain.

Defined Benefit Scheme
A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Defined Contribution Scheme
A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Depreciation
Charges to the income and expenditure account to reflect a decrease in the value of assets as a result of use or ageing.

Discretionary benefits
Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the authority's discretionary powers.

Devolved financial management (DFM)
The county council's budget management system. The budget is managed by those who make the decisions in each area of responsibility ('accountable officers').

Direct service organisation (DSO)

An organisation set up within the county council to carry out certain activities subject to competitive tendering.

Employer's pension contributions
Payments to the pension scheme made by the county council for current employees.

Exchange Transactions
The authority receives assets or services or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services and use of assets) to another entity in exchange.

Expected return on assets (IAS 19)
The average rate of return expected on investment assets held by the pension scheme.

Fair value
Fair value is the amount for which an asset could be exchanged, or a liability settled, in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

Finance Lease
A lease that transfers substantially all the risks and rewards related to the ownership of the asset to the lessee.

Financial year
The period of 12 months for which the accounts are drawn up. For local authorities the financial year (or 'accounting period') begins on 1 April and finishes on 31 March of the following year.

Financing charges
Repayments on amounts loaned to the county council by external organisations. These charges include interest as well as repayment of the amount borrowed (the 'principal').

Financial instrument

A financial instrument can be a financial asset or a financial liability. A financial asset is a contract such as an investment or loan representing amounts due to the authority. A financial liability is a contract such as borrowing representing amounts owed by the authority.

Fixed assets
Assets intended to be used for several years – for example, buildings, machinery and vehicles.

General Fund
See 'County Fund'.

Global custodian
A financial institution responsible for keeping up-to-date records of equities and bonds owned by a pension fund.

Government grants
Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

Historic cost
The cost of an asset at the time it was bought.

Impairment
This is where the useful working life of an asset is significantly reduced – for example, because of damage to a piece of equipment or changes in technology which mean that a service can be provided more efficiently in other ways. When the amount at which the asset is held exceeds the amount the authority could receive for the asset, an impairment loss is recognised.

Infrastructure assets
Highways fixed assets – for example, roads and bridges.

Intangible assets
Assets which do not have a physical form. Examples include computer software, brand names, patents and copyrights.

Interest cost (pensions)
The expected increase in the value of pension scheme liabilities because benefits are one year closer to being paid.

Investing Activities
The acquisition of and disposal of long term assets and other investments not included as part of cash equivalents.

Investment Property
Property which is held solely to earn rentals or for capital appreciation, not as part of service delivery.

Landfill Allowance Trading Scheme (LATS)
The scheme allocates tradable landfill allowances to each waste disposal authority in England and authorities can buy, sell or carry forward landfill allowances depending on usage requirements.

Local Authority Business Growth Incentive Scheme (LABGI)
The Local Authority Business Growth Incentives Scheme provides an incentive for local authorities to promote economic growth in the area by allowing them to retain a proportion of any increase in business rates revenues.

Local Public Service Agreement (LPSA)
Government initiative whereby demanding performance targets are set to deliver improvements for local people through partnerships with district councils and other organisations.

Market value
The monetary value of an asset as determined by current market conditions at the balance sheet date.

Materiality
The concept that any omission from or inaccuracy in the statement of accounts should not be so large as to affect the understanding of those statements by a reader.

Minimum revenue provision
The minimum amount (as laid down in statute) that the county council must charge to the accounts each year in order to meet the costs of repaying amounts borrowed.

National non-domestic rate
The government levies a standard rate on all properties used for commercial purposes and cannot increase it by any more that the retail price index. The rates are collected on behalf of the government by district councils, and are then redistributed from a national pot as part of formula grant.

Net book value
The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

Net nil trading position
This is where spending matches income.

Net current replacement cost
The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net Debt
The authority’s borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be to net funds rather than net debt.

Net pension liability
The amount the pension scheme will have to pay out in the future, less the value of pension fund assets.

Net realisable value
The amount for which an asset can be sold, less the cost of selling it.

Nil consideration
Where no charge is made for an item.

Nominal value of a financial instrument

The nominal value of a financial instrument is the amount, exclusive of interest, payable or receivable when the instrument matures.

Non-cash adjustments
Changes in debtors' and creditors' balances over the year.

Non-distributed costs
These are costs that cannot be specifically applied to a service or services and are held centrally, comprising certain pension costs and the costs of unused shares of IT facilities and other assets.

Non-operational assets
Assets which are not in use.

Operating lease
A lease where ownership of the goods remains with the company leasing them to the county council.

Operational assets
Assets used for day-to-day activities – for example, land, buildings, furniture and equipment.

Participating interest
When an organisation owns a significant proportion of shares (normally 20% or more) in another company.

Past service cost or gain (FRS17)
The increase or decrease in pension scheme liabilities as a result of changes to benefits earned in previous years – for example, because of early retirement or changes to pension scheme regulations.

Pension enhancements
Additional pension benefits (such as added years on early retirement) awarded to scheme members in line with the county council's general conditions of employment.

Pooled investment vehicle
This is where a pension fund invests in a fund with other investors. This fund in turn buys and owns assets.

Precept

A charge made by one authority which is collected by another authority – for example, the Council Tax precept.

Principal
The amount of money borrowed, not including interest charges.

Principal repayment of debt
Re-payment of a loan, not including interest charges.

Prior period adjustments
Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Private finance initiative (PFI)
A means of securing new assets and associated services in partnership with the private sector.

Projected unit method (Pensions)
An accrued benefits valuation method in which the scheme liabilities make allowance for the projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

(a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and

(b) the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not.

Provisions
Funds set aside to cover specific past expenses, where the exact cost or timing is still uncertain.

Public Works Loan Board (PWLB)
A government agency which provides longer-term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

Realisable value
The amount for which an asset can be sold.

Reconciliation
The process of checking figures from different areas which should logically match up – for example, matching invoices paid against amounts banked.

Related party
A person or organisation which has influence over another person or organisation.

Reserves
Amounts set aside in one year’s accounts which can be spent in later years. Some types of reserve can only be spent if certain conditions are met.

Residual value
The amount an asset can be sold for, less the cost of selling it.

Revenue account

An account which records the county council's day to day expenditure and income relating to items such as salaries, wages and the costs of running services.

Revenue contribution to capital outlay
This is where capital expenditure is financed by a direct contribution from the revenue account, rather than by a loan or another form of finance.

Revenue expenditure
The county council's day-to-day spending. This is charged to the revenue account and consists mainly of salaries and wages, running costs and financing charges.

Revenue Support Grant
A general grant from central government to contribute towards the cost of providing services.

Reversed out
This is where an opposite entry is made in the accounts, to cancel the effect of a transaction.

Specific grants
Government grants for a particular service – for example, the Standards Fund Grant.

Standing orders
The rules the county council must follow when buying goods, services and work. These rules are set out in the council's constitution.

Statement of Movement on the County Fund balance
This statement reconciles the outturn on the income and expenditure account to the County Fund balance.

Statement of recognised gains and losses
This statement summarises all the gains and losses incurred in the financial year and measures the movement in the balance sheet net worth.

Stock
Raw materials and consumable goods bought but not yet used at the end of the accounting period.

Tangible assets
Assets which have a physical form – for example, buildings, furniture and equipment.

Total net worth
The total net value of resources available to or owned by the council.

Transfer in
A transfer of money into the pension fund from another pension fund.

Transfer out
A transfer of money out of the pension fund to another pension fund.

Transfer value
A payment made by one pension fund to another when a scheme member changes schemes.

Useful life
The period which an asset is expected to be available for use.

Undischarged obligations
Payments we are committed to make in the future.

Withholding tax
A tax on dividend income, charged at source.

Write down
This is where amounts are charged to the revenue account or offset against another balance sheet account.